

CITY OF FALLS CHURCH, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2003



CITY
OF

FALLS
CHURCH

**CITY OF FALLS CHURCH, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2003**



**Prepared by the Department of Finance
Shirley Hughes, CPFO, CGFM, CFO/Director of Finance
Melissa Ann T. Cabacar, CPA, Deputy Director**

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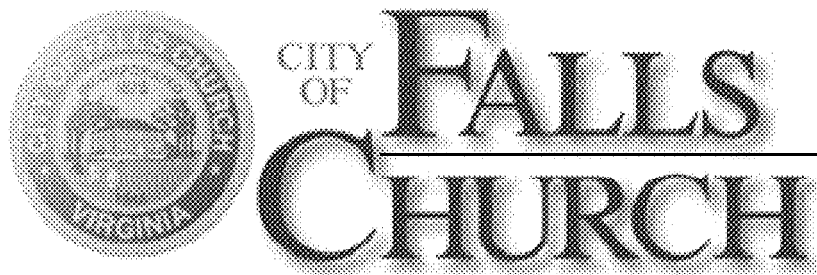
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INTRODUCTORY SECTION

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Harry E. Wells Building
300 Park Avenue
Falls Church, Virginia 22046-3332

January 20, 2004

City Council

City of Falls Church

Mayor and Members of the Council

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the City of Falls Church, Virginia (the City) for the fiscal year ended June 30, 2003, in accordance with the Code of Virginia. The financial statements included in this report conform to accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended. All necessary disclosures have been included to enable the reader to gain the maximum understanding of the City's financial affairs.

The letter of transmittal is traditionally addressed to the governing or legislative body. We believe that the CAFR should be management's report to constituents, oversight bodies, resource providers, investors and creditors. This letter is addressed to you and by wide circulation it is also directed to the citizens of the City of Falls Church and all other interested readers. In addition to complying with legal requirements, this letter, management's discussion and analysis (MD&A), the financial statements, supplemental data, and the statistical tables have been prepared to provide full financial disclosure.

This year's CAFR is presented using the new financial reporting model as prescribed by GASB in Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, and Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus. The changes required are described extensively in the MD&A and the notes to the financial statements, which can both be found in the financial section of the CAFR.

Our CAFR is divided into three sections: introductory, financial and statistical. The introductory section includes this letter of transmittal, a list of the City's principal elected and appointed officials, and the organizational chart. The financial section includes the Independent Auditors' Report, MD&A, Basic Financial Statements, including the notes, and Required Supplementary Information. In addition, the financial section contains supplemental data, consisting of combining, individual fund, and component unit financial statements and schedules. The statistical section contains selected financial and demographic information, generally presented on a multi-year basis. The Single Audit Report, which is required for federal grant recipients, is issued separately.

All the financial activities of the reporting entity are included within this report. As used here, the reporting entity comprises the primary government (City of Falls Church as legally defined) and its component units. Under GASB pronouncements, component units are legally separate entities for which the primary government is financially accountable. The component units of the City (the City of Falls Church Public School Board, the Falls Church Industrial Development Authority, and the Falls Church Economic Development Authority) are discretely presented component units. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and changes in financial position from those of the primary government.

GOVERNMENTAL STRUCTURE

The City is located in the northeastern corner of Virginia and encompasses an area of 2.2 square miles. The City is part of the Washington, D.C. metropolitan area, which includes jurisdictions in Maryland and Northern Virginia, and the District of Columbia.

The City is a municipal corporation incorporated as an independent city in 1948 under the laws of the Commonwealth of Virginia, and is not part of any county. The City operates under a Council-Manager form of government. The City Council (the Council) is comprised of seven members elected at-large for four-year staggered terms. Every two years the Council elects one member to serve as Mayor and one to serve as Vice-Mayor. The Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City's manager, attorney and clerk. The Council appoints a City Manager to act as the administrative head of the City. The City Manager serves at the pleasure of the Council, carries out the policies established by the Council, and directs business and administrative procedures.

The City provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets and other infrastructure; and recreational activities and cultural events. The City also provides water and sanitation services to its residents. In addition, it provides water to a portion of Fairfax County. The water and sewer functions are included as an integral part of the City's financial statements. The City is financially accountable for the legally separate school system, which is reported as a component unit within the financial statements.

ECONOMIC CONDITION AND OUTLOOK

The information presented in the financial statements is best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local Economy

National and regional economic trends continue to have an impact on the economy of the City of Falls Church. The region continues to suffer economically due to layoffs in the technology sector and business closings and cutbacks. However, an increase in Federal government spending, specifically in Defense and Homeland Security, has buffered this region from the country's continued economic recession. While the Northern Virginia region's office vacancy rate for the third quarter of 2003 remains relatively high for office space at 17.7%, the City's total office vacancy rate is only 5.4%. The City's vacancy rate is particularly low due to the large percentage of business-owned office condominiums in the City. It should also be noted that commercial office space in buildings that are available for lease only have a vacancy rate of 11.8%, which is consistent with the regional trends.

Unlike the office market, the residential housing market is robust and shows no signs of softening. The median asking price for single-family homes has increased 18% from 2002. Condominium values have also continued to increase significantly; the median price is up 23% from 2002. These numbers are consistent with City and regional market trends as the entire Washington DC metropolitan area shows a dearth in available housing.

10 There are new mixed-use housing developments under construction and in the planning process in the City. Once these new buildings are completed, the housing numbers are expected to continue to rise in the future.

Economic Development

Economic development activities in the City are administered with the assistance of the Falls Church Economic Development Authority (EDA). The EDA members are appointed by the City Council to assist in developing and implementing general economic development policy and objectives.

The goals of the City's economic development program are to enhance economic opportunities, spur the redevelopment of older and functionally obsolete commercial areas, nurture growth in existing businesses, recruit new businesses, and promote regional cooperation. Once realized, the revitalization of the commercial areas and increase in local revenues will improve the quality of life for both residents and businesses.

Professional service firms such as physicians, attorneys, accountants, and real estate agents predominate the local economy, but the City is also home to innovative technology-oriented companies, internet-related service firms, defense contractors, governmental consultants, professional associations and local and national retailers. This diverse local economy allows the City to absorb economic shifts in a specific sector without destroying the local economy. This diversity and close proximity to both Washington DC and the Dulles High-Tech Corridor serves as a magnet for small service and high-tech businesses that desire a convenient and strategic business location.

* * * * *

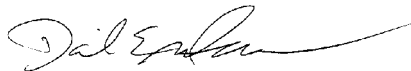
Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the administration department along with staff from the City Manager's office and the Communications division. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. In addition, we acknowledge the cooperation and assistance of each City department throughout the year in the efficient administration of the City's financial operations.

We would like to give special recognition to Melissa Cabacar, the City's new Deputy Director of Finance, who orchestrated the City's implementation of the new financial reporting model and the preparation of this CAFR for submission to the Government Finance Officer's Association for participation in the Certificate of Achievement for Excellence in Financial Reporting program.

This CAFR reflects our commitment to the citizens of Falls Church, the City Council, and all interested readers of this report to provide information in conformance with the highest standards of financial reporting.

Respectfully submitted,



Daniel E. McKeever
City Manager



Shirley D. Hughes
Chief Financial Officer

CITY OF FALLS CHURCH, VIRGINIA DIRECTORY OF OFFICIALS

CITY OF FALLS CHURCH, VIRGINIA CITY COUNCIL

Daniel E. Gardner, Mayor

Martha R. Meserve, Vice Mayor

Robin S. Gardner

Marlind R. Hockenberry

Samuel A. Mabry

Ronald S. Parson

David E. Snyder

CITY OFFICIALS

Daniel E. McKeever, City Manager

Shirley D. Hughes, CFO

Roy B. Thorpe, Jr., City Attorney

Kathleen C. Buschow, City Clerk

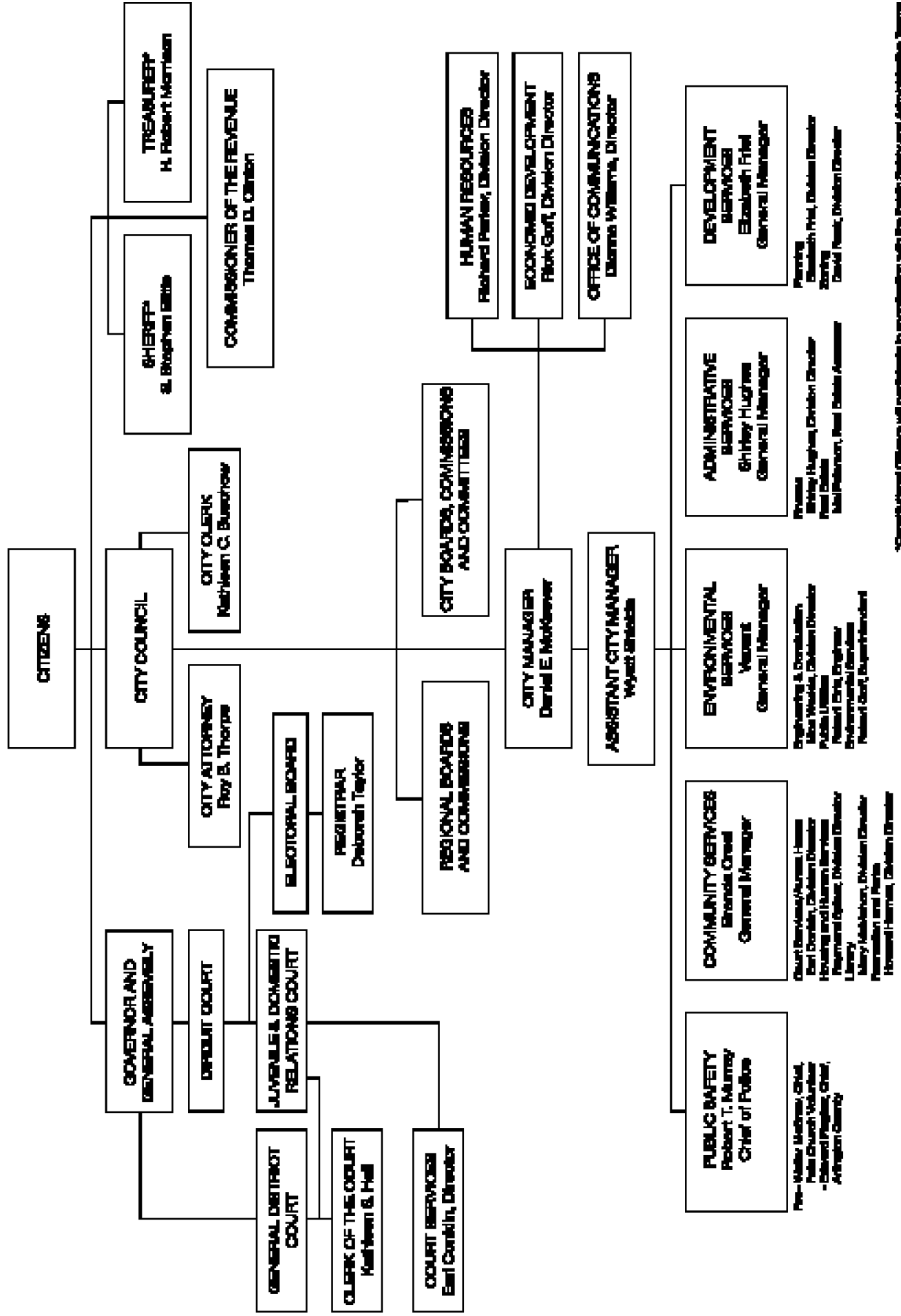
H. Robert Morrison, City Treasurer

Thomas Clinton, Commissioner of Revenue

S. Stephen Bittle, Sheriff

Mary Ellen Shaw, Superintendent of Schools

CITY OF FALLS CHURCH, VIRGINIA ORGANIZATIONAL CHART



*Consulted Officers will participate in coordination with the Public Safety and Administrative Teams

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CITY OF FALLS CHURCH, VIRGINIA
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FINANCIAL SECTION

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CITY OF FALLS CHURCH, VIRGINIA
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INDEPENDENT AUDITORS' REPORT

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2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

To the Honorable Mayor and Members of the City Council
City of Falls Church, Virginia:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Falls Church, Virginia (the City), as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia (Specifications). Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Falls Church, Virginia, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note VII, the City has implemented the provisions of several new accounting and financial reporting standards issued by the Governmental Accounting Standards Board, effective July 1, 2002.

The management's discussion and analysis and the required supplementary information, as listed in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



KPMG LLP, a PwC U.S. member firm, is a member of the PwC network, a Swiss association.



Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section, the other supplementary information in the Financial Section, and the Statistical Section, as listed in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information in the Financial Section have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section and the Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

January 16, 2004

CITY OF FALLS CHURCH, VIRGINIA
**COMPREHENSIVE ANNUAL
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FOR THE FISCAL YEAR ENDED JUNE 30, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

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CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2003

This section of the City of Falls Church, Virginia's (the City) Comprehensive Annual Financial Report (CAFR) presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2003.

In June 1999, the Governmental Accounting Standard Board (GASB) issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB Statement No. 34), which established new requirements and a new reporting model for the annual financial reports of state and local governments. The objective of the statement is to "enhance the understandability and usefulness of the general purpose financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors". This section is an element of the new reporting model that the City is required to present as part of its annual financial report.

We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, and the basic financial statements and related notes, which are also contained in this CAFR.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

The government-wide financial statements report information about the City as a whole using the economic resources measurement focus and accrual basis of accounting.

- The City's total net assets (assets less liabilities) on a government-wide basis were \$107.7 million at June 30, 2003.
- For the fiscal year, taxes and other revenues of the City's governmental activities amounted to \$45.5 million and expenses amounted to \$44.4 million, which resulted in an increase in net assets for the City's governmental activities of \$1.1 million in 2003. Revenues of the City's business-type activities were \$16.6 million, expenses were \$17.2 million, and transfers to general fund were \$4.7 million, which resulted in a decrease in net assets for the City's business-type activities of approximately \$5.3 million in 2003.

Highlights for Fund Financial Statements

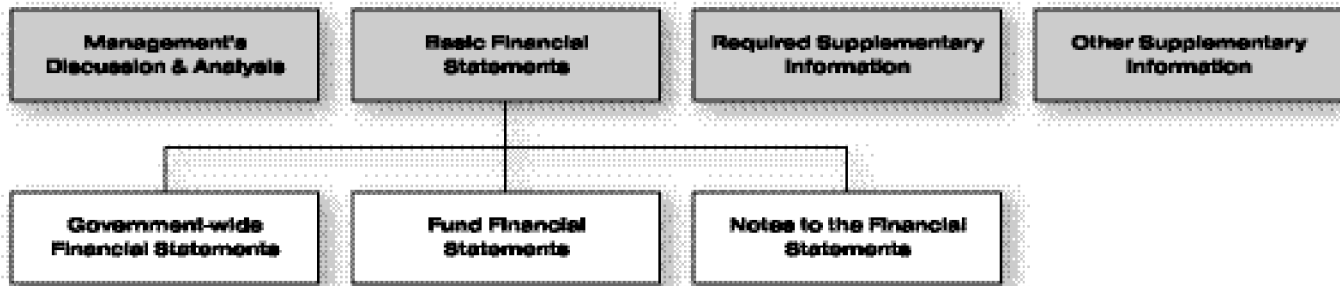
The fund financial statements provide more detailed information about the City's most significant funds using the current financial resources measurement focus and modified accrual basis of accounting for the City's governmental funds. The City's proprietary funds, the Water and Sewer funds, are also presented in the fund financial statements but are presented using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used to prepare the government-wide financial statements.

- The City's governmental funds reported revenues and other financing sources in excess of expenditures and other financing uses of \$0.5 million for the fiscal year.
- The City's General Fund reported a fund balance of \$16.9 million at June 30, 2003, an increase of \$1.1 million from June 30, 2002.
- The City's Water and Sewer funds reported decreases in net assets of approximately \$5.1 million and \$0.2 million, respectively, in 2003.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of four parts: (1) management's discussion and analysis (MD&A) presented here, (2) basic financial statements and related notes, (3) required supplementary information (RSI), and (4) other supplementary information.

COMPONENTS OF THE FINANCIAL SECTION



The City's basic financial statements consist of two kinds of statements, each with a different view of the City's finances. The new government-wide financial statements provide both long and short-term information about the City's overall financial position. The fund financial statements, which have been provided in the past, focus on the individual parts of the City's government, reporting the City's operations in more detail than the government-wide financial statements. The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

The statements and notes are followed by required supplementary information that contains data pertaining to the retirement systems. In addition to these required elements, the City includes other supplementary information such as combining and individual fund statements to provide details about the governmental funds, internal service funds, fiduciary funds, capital assets, and component units.

Government-wide Financial Statements

The government-wide financial statements report information about the City as a whole using the economic resources measurement focus and the accrual basis of accounting, which are similar to those used by private-sector businesses. In addition, they report the City's net assets and how they have changed during the fiscal year.

The first government-wide statement - the statement of net assets - presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the City is improving or deteriorating. Additionally, non-financial factors, such as a change in the City's property tax base or the condition of the City facilities, should be considered to assess the overall health of the City.

The second statement - the statement of activities - presents information showing how the City's net assets changed during the fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when the cash is received or paid. This statement also highlights the extent to which City programs are able to cover their costs with user fees, contributions, and grants as opposed to being financed with general revenues of the City.

The government-wide financial statements are divided into three categories, as follows:

Governmental Activities - Most of the City's basic services are reported here, including education; public safety; public works; judicial administration; health and welfare services; community development; economic development; parks, recreation, and cultural programs; and general administration. These activities are financed primarily by property taxes, other local taxes, and federal and state grants. Included in the governmental activities are the governmental funds.

Business-type Activities - The City's business-type activities (the Water and Sewer funds) are reported here.

Discretely Presented Component Units - The City includes three other entities in its financial reporting entity: City of Falls Church Public School Board (School Board), Falls Church Economic Development Authority (EDA), and the Falls Church Industrial Development Authority (IDA). Although legally separate, these component units are important because the City is financially accountable for them.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds. Fund accounting is used to keep track of the specific sources of funding and spending for particular purposes, as well as ensure and demonstrate compliance with finance-related legal requirements. The City has the following three types of funds:

Governmental Funds - Most of the City's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can readily be converted to cash, flow in and out and (2) the year-end balances that are available for spending. The governmental funds financial statements provide a detailed short-term or "current financial resources" view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term or "economic resources" focus of the government-wide financial statements, additional information is provided with the fund financial statements to explain the relationship (or differences). The General Fund is the main operating fund of the City and consequently, the largest of the government funds. The only other governmental fund of the City is the capital projects fund, which is considered a non-major governmental fund.

Proprietary Funds - Proprietary funds, which consist of two enterprise funds, are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both long and short-term financial information. The City's enterprise funds, the Water and Sewer funds, are the City's business-type activities reported in the government-wide statements. The fund financial statements provide more detail and additional information, such as cash flows, for the Water and Sewer funds.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2003

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support City programs. The City's fiduciary funds consist of pension trust funds and agency funds. The pension trust funds are used to account for the assets held in trust by the City for the employees and beneficiaries of its defined benefit pensions plans - the Basic Employees Retirement Plan and the Police Retirement Plan. The agency funds are used to account for monies received and disbursed on behalf of the Fairfax County Water Authority and the Northern Virginia Criminal Justice Academy.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

This is the first year that the City has presented its financial statements under the new reporting model required by GASB Statement No. 34. This new reporting model does not require the City to restate prior periods for the purpose of providing comparative information. In future years, when prior year information becomes available, a comparative analysis of government-wide financial information will be included in this report.

Statement of Net Assets

The following table presents a summary of the Statement of Net Assets for the reporting entity as of June 30, 2003:

Summary of Net Assets As of June 30, 2003 (\$ In Thousands)				
	Governmental Activities	Business-Type Activities	Component Units	Total Entity
Assets:				
Current and other assets	\$ 36,090	\$ 37,587	\$ 5,198	\$ 78,875
Capital assets, net	36,275	44,399	2,831	83,505
Total assets	72,365	81,986	8,029	162,380
Liabilities:				
Other liabilities	18,053	5,004	3,187	26,244
Long-term liabilities	27,199	423	844	28,466
Total liabilities	45,252	5,427	4,031	54,710
Net Assets:				
Invested in capital assets, net of related debt	10,458	44,399	2,695	57,552
Unrestricted	16,655	32,160	1,303	50,118
Total net assets	\$ 27,113	\$ 76,559	\$ 3,998	\$ 107,670

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City's primary government, assets exceeded liabilities by approximately \$103.7 million at June 30, 2003. The largest portion of the City's net assets reflects its investment in capital assets (e.g., land, buildings, infrastructure and equipment), less the outstanding debt that was used to acquire these assets.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2003

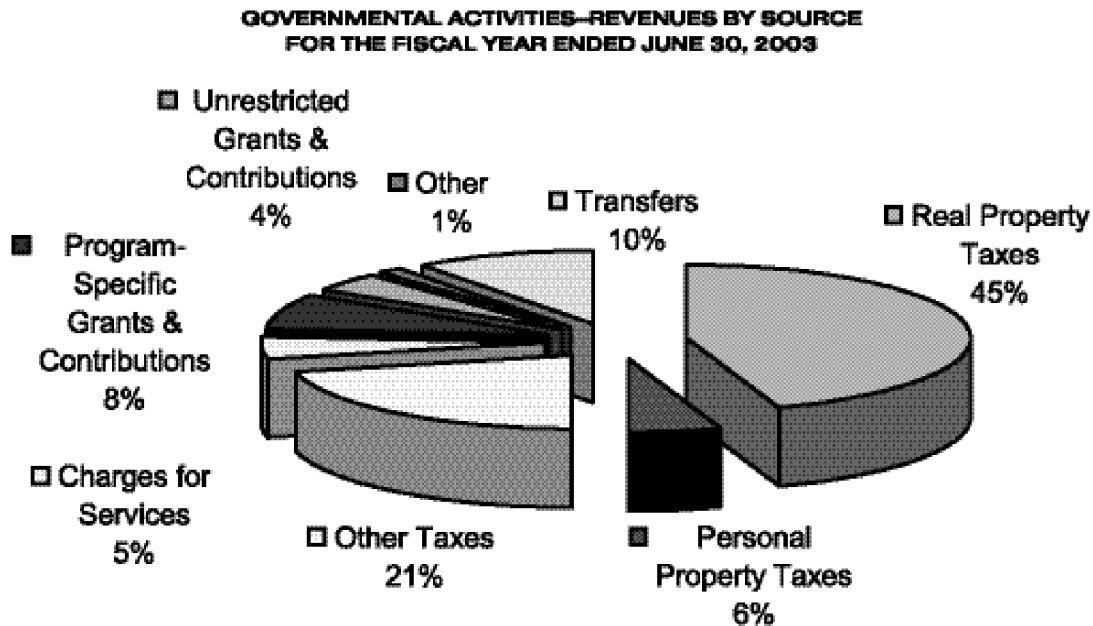
Statement of Activities

The following table summarizes the changes in net assets for the primary government for the year ended June 30, 2003:

Summary of Changes in Net Assets For the Fiscal Year Ended June 30, 2003 (\$ In Thousands)			
	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues:			
Program revenues:			
Charges for services	\$ 2,274	\$ 15,312	\$ 17,586
Operating grants & contributions	2,706	-	2,706
Capital grants & contributions	749	537	1,286
General revenues:			
Real estate taxes	20,299	-	20,299
Personal property taxes	2,501	-	2,501
Business license taxes	2,343	-	2,343
Local sales & use taxes	3,293	-	3,293
Consumer's utility taxes	1,452	-	1,452
Motor vehicle decals	234	-	234
Recordation	138	-	138
Occupancy, tobacco, & other taxes	2,242	-	2,242
Unrestricted grants & contributions	1,895	-	1,895
Revenue from use of money and property	252	701	953
Other	384	35	419
Total revenues	40,762	16,585	57,347
Expenses:			
General government administration	3,533	-	3,533
Judicial administration	1,011	-	1,011
Public safety	6,795	-	6,795
Public works	4,748	17,206	21,954
Health and welfare	2,667	-	2,667
Education and payments to schools	20,248	-	20,248
Parks, recreation, and cultural	2,759	-	2,759
Community development	824	-	824
Economic development	429	-	429
Interest expense	1,398	-	1,398
Total expenses	44,412	17,206	61,618
Excess/(deficiency)	(3,650)	(621)	(4,271)
Transfers	4,713	(4,713)	-
Change in net assets	1,063	(5,334)	(4,271)
Net assets, beginning of year	26,050	81,893	107,943
Net assets, end of year	\$27,113	\$76,559	\$103,672

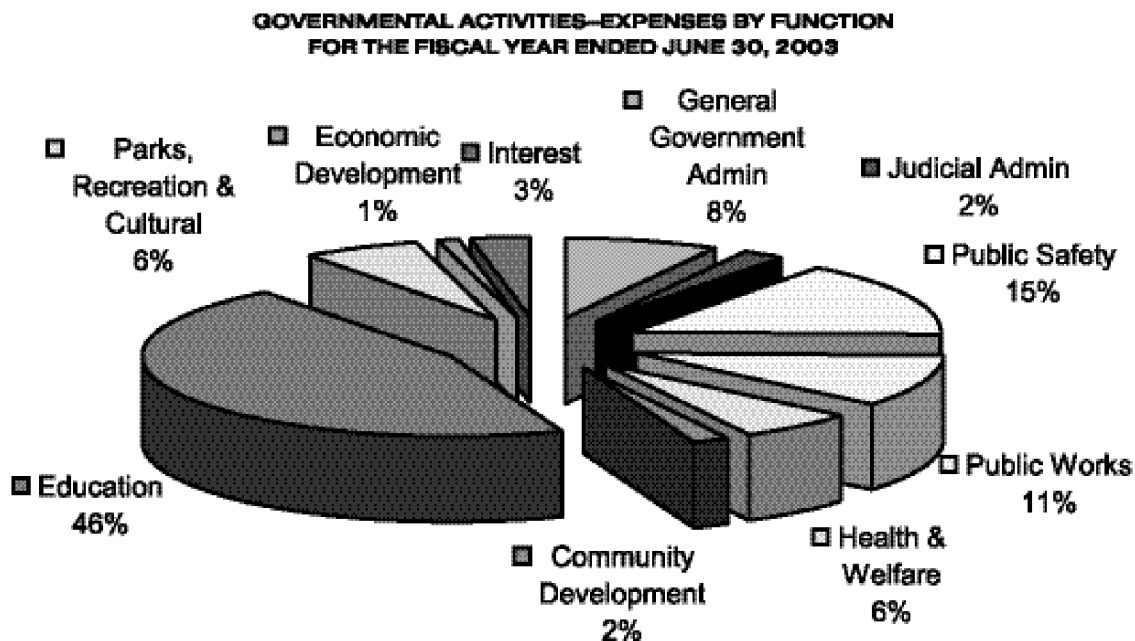
Governmental Activities

Revenues and transfers for the City's governmental activities were \$45.5 million for fiscal year 2003. Sources of revenue for fiscal year 2003 are comprised of the following items:



Taxes constitute the largest source of City revenues, amounting to \$32.5 million for fiscal year 2003. Real property taxes (\$20.3 million) represent over 62 percent of total taxes. Tax revenues for fiscal year 2003 benefited from an average increase of 18.4 percent in real property assessments.

The cost of all governmental activities this year was \$44.4 million. As the table on the next page indicates, education continues to be the City's largest program and highest priority; education and payments to schools totaled \$20.2 million. Public safety expenses represent the second largest expense totaling \$6.8 million. Public works expenses totaled \$4.7 million, representing the third largest expense for the City.



CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2003

The following table presents the cost of each of the City's six largest programs - education and payments to schools, public safety, public works, general government administration, health and welfare, and parks, recreation and cultural - as well as each program's net cost (total cost less fees generated by the activities and program-specific intergovernmental aid).

Net Cost of City's Governmental Activities For the Fiscal Year Ended June 30, 2003 (\$ In Thousands)		
	Total Cost	Net Cost
Functions/Programs:		
Education and payments to schools	\$ 20,248	\$ 20,248
Public safety	6,795	4,625
Public works	4,748	3,778
General government administration	3,533	3,268
Parks, recreation, and cultural	2,759	1,870
Health and welfare	2,667	1,689
Other	3,662	3,204
Total	\$ 44,412	\$ 38,682

Some of the cost of governmental activities were paid by those who directly benefited from the programs (\$2.3 million) and other governments and organizations that subsidized certain programs with grants and contributions (\$3.5 million). Of the \$38.7 million net cost of services, the amount that our taxpayers paid for these activities through City taxes was \$32.5 million. The remaining \$6.2 million net cost was funded primarily by transfers from the Water and Sewer funds of \$4.7 million, and unrestricted grants and contributions of \$1.9 million.

Business-type Activities

The Water Fund reported a decrease in net assets of \$5.1 million for fiscal year 2003. Total revenues of the Water Fund were \$14.8 million as compared to total costs of \$19.9 million. The Water Fund recovers its costs primarily through user charges and availability fees.

The Sewer Fund reported a decrease in net assets of \$0.2 million for fiscal year 2003. Total revenues of the Sewer Fund were \$1.8 million as compared to total costs of \$2 million. The Sewer Fund recovers its costs primarily through user charges and availability fees.

Highlights of the City's business-type activities for fiscal year 2003 are as follows:

- The Water Fund made significant expansion to its water distribution systems through the construction of the Tyson's Corner project. This project is a three-part project, one of which, the Tyson's Water Storage Tank, is still in progress as of June 30, 2003. The other two parts, the Dunn Loring Pump Station and Gallows Road Watermain projects, were completed as of June 30, 2003. The total cost of the entire project to date is \$3.8 million.
- The Water Fund also completed another project called the Great Falls Street Watermain project for a total cost of \$1.3 million.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2003, the City's governmental funds reported a combined fund balance of approximately \$17.2 million. Of this amount, approximately \$1 million is reserved to indicate that it is not available for new spending because it has already been committed for items such as existing purchase orders and construction contracts. Approximately 94 percent (\$16.2 million) of the total fund balance represents unreserved fund balance, which constitutes resources available for appropriation. Of the unreserved fund balance, \$0.3 million is designated by City Council to be used to fund future economic development initiatives.

The net change in fund balance for all governmental funds was approximately \$0.5 million for the fiscal year ended June 30, 2003. The total revenues and other financing sources were \$47.5 million and total expenditures and other financing uses were \$47 million, resulting in an increase in the fund balance.

The General Fund is the main operating fund of the City. At the end of the current fiscal year, the unreserved fund balance was \$15.7 million (34% of the General Fund's total expenditures). The revenues of \$42.4 million less expenditures of \$46.3 million and other financing uses (net) of \$5 million resulted in a net increase in fund balance of \$1.1 million. Key factors in the growth of the fund balance include the following:

- Assessments of real estate property increased, resulting in higher tax revenues; and
- Spending in general government administration, public safety, public works, health and welfare, and community development, was less than anticipated due to position vacancies and projects that were planned but not started or completed.

The City's enterprise funds provide the same type of information found in the government-wide financial statements for the business-type activities, as the basis of accounting is the same. Factors concerning finances of the Water and Sewer funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The final amended budget appropriations, which include expenditures and transfers out, exceeded the original budget by \$1.7 million or 4 percent. This increase is due primarily to the carryover of commitments for projects that were not started or completed during the fiscal year ended June 30, 2002.

The final amended budget revenues and transfers in were more than the original budget by \$1.1 million or 3 percent, primarily due to anticipated receipts of grants and contributions from the Federal government and the Commonwealth of Virginia.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2003

Actual revenues and other financing sources exceeded final budget amounts by \$1.5 million, while actual expenditures were \$1.8 million less than final budget amounts. Highlights of the comparison of final budget to actual figures for the fiscal year ended June 30, 2003, include the following:

- Actual tax revenues exceed budgeted amounts by \$1 million mostly due to property and sales taxes.
- Actual intergovernmental revenues were approximately \$0.2 million less than the budgeted amounts due to reductions made by state and federal governments.
- Actual departmental expenditures were less due to position vacancies and projects that were planned but not started or completed.

During the year, revenues exceeded budgetary estimates and expenditures were less than budgetary estimates, thus eliminating the need to draw upon existing fund balance as was anticipated in the budget process.

CAPITAL ASSETS AND LONG-TERM DEBT

The City's investment in capital assets as of June 30, 2003 amounted to approximately \$80.7 million (net of accumulated depreciation and amortization) as summarized below:

Capital Assets As of June 30, 2003 (\$ In Thousands)			
	Governmental Activities	Business-Type Activities	Total
Land	\$ 4,049	\$ 2,595	\$ 6,644
Construction in progress	312	1,775	2,087
Buildings and system	32,168	69,848	102,016
Improvements other than buildings	2,262	-	2,262
Machinery and equipment	6,711	1,048	7,759
Software	1,210	-	1,210
Infrastructure	8,276	-	8,276
Library collections	1,823	-	1,823
Accumulated depreciation	(20,537)	(30,867)	(51,404)
Total Capital Assets, Net	\$36,274	\$44,399	\$80,673

During fiscal year 2003, the City's net increase in capital assets (including additions, decreases, depreciation and amortization) was \$2.1 million (\$1.1 million decrease for governmental activities and \$3.2 million increase for business-type activities) or 3 percent.

This year's major capital asset events included the following:

- Expansions and additions in the water distribution system for a total of \$4.1 million. The major components of these additions were discussed in the discussion of the City's business-type activities.

Additional information pertaining to the City's capital assets can be found in the notes to the financial statements.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2003

Long-term debt

The City maintains the following ratings related to tax-exempt securities; Aa2 from Moody's Investor Services and A+ from Standard and Poor's Corporation.

The City's legal limit for outstanding debt is 10% of total assessed real property within the City of \$1,821 million. The City's total long-term obligation of \$27.6 million is well within the limits set by the Commonwealth of Virginia.

The City Council has adopted a policy that sets a limit for outstanding debt at 5% of total assessed value of real property. In addition, annual debt service payments must be less than 12% of annual General Fund expenditures. As of June 30, 2003, total debt outstanding was 1.4% of assessed value of real property and debt service payments were 7% of General Fund expenditures.

The following is a summary of the City's outstanding debt as of June 30, 2003:

Outstanding Long-Term Debts As of June 30, 2003 (\$ In Thousands)			
	Governmental Activities	Business-Type Activities	Total
General obligation bonds issued for:			
Schools	\$ 14,951	\$ -	\$ 14,951
Community center	2,322	-	2,322
Fire station	3,270	-	3,270
City hall	4,952	-	4,952
Capital leases and other	1,710	423	2,133
Total	\$ 27,205	\$ 423	\$ 27,628

Additional information relative to the City's long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The following economic factors are reflected in the General Fund budget for the fiscal year 2004:

- The percentage change in real property taxes for fiscal year 2003 was 9.8 percent as compared to 14.7 percent in fiscal year 2002.
- Through June 2003, the median sales price of new existing single family housing units experienced double-digit growth over fiscal year 2002 sales prices.
- The Commonwealth of Virginia experienced a budget shortfall during fiscal 2003, causing a reduction in payments to local jurisdictions for 2003 as well as 2004.

Per the fiscal year 2004 Adopted Budget, revenues are \$48.5 million, a 5.6 percent increase over the fiscal year 2003 level. Increases in real property tax receipts drive nearly the entire increase in revenues; real property tax revenues account for 100 percent of the total General Fund revenue increase in fiscal year 2004. In contrast, nearly all other revenue categories combined are projected to be flat. These categories, made up primarily of personal property, other local taxes, and interest on investments, are much more reactive to changing economic conditions. As a result, revenue from real property taxes will make up approximately 56 percent of total revenues, up from approximately 53 percent in fiscal year 2003.

CITY OF FALLS CHURCH, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2003

Pressures on the City budget due to State aid reductions and the additional resources required to maintain a safe community will continue to be a challenge. In addition, growth in the numbers of school age children will require an increase in transfers to the School budget as well as the need to fund more classrooms through a new building or additional relocatable structures. The City Council has approved a referendum vote on a new school for November 2003. The proposed new school will require a cash contribution from the City's fund balance of \$5 million and a general obligation bond issue of \$25 million if the referendum passes.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Falls Church, Division of Finance, 300 Park Avenue, Falls Church, VA 22046.

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CITY OF FALLS CHURCH, VIRGINIA
**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

BASIC FINANCIAL STATEMENTS

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City of Falls Church, Virginia
Statement of Net Assets
As of June 30, 2003

	Primary Government			Component Units		
	Governmental Activities	Business-Type Activities	Total	School Board	Nonmajor Component Units	Total Component Units
Assets:						
Cash and cash equivalents	\$ 17,350,112	\$ 35,343,791	\$ 52,693,903	\$ 4,400,693	\$ 124,747	\$ 4,525,440
Investments	-	253,360	253,360	-	-	-
Receivables, net						
Taxes	14,823,738	-	14,823,738	-	-	-
Accounts	140,612	1,669,559	1,810,171	71,288	-	71,288
Accrued interest	989,248	-	989,248	-	-	-
Internal balances	(17,963)	17,963	-	-	-	-
Due from primary government	-	-	-	89,211	-	89,211
Due from other governmental units	2,609,432	-	2,609,432	511,540	-	511,540
Prepays	65,480	-	65,480	-	-	-
Inventories	129,907	302,714	432,621	-	-	-
Capital assets:						
Non-depreciable:						
Land	4,048,900	2,594,882	6,643,782	743,354	517,255	1,260,609
Construction in progress	312,425	1,775,086	2,087,511	-	-	-
Total non-depreciable	4,361,325	4,369,968	8,731,293	743,354	517,255	1,260,609
Depreciable:						
Buildings and systems	32,167,893	69,848,017	102,015,910	922,669	-	922,669
Improvements other than buildings	2,262,103	-	2,262,103	-	-	-
Machinery and equipment	6,711,073	1,048,314	7,759,387	1,155,540	-	1,155,540
Software	1,210,144	-	1,210,144	-	-	-
Infrastructure	8,275,585	-	8,275,585	-	-	-
Library collections	1,823,454	-	1,823,454	436,438	-	436,438
Accumulated depreciation	(20,537,069)	(30,867,569)	(51,404,638)	(943,973)	-	(943,973)
Total depreciable, net	31,913,183	40,028,762	71,941,945	1,570,674	-	1,570,674
Total capital assets, net	36,274,508	44,398,730	80,673,238	2,314,028	517,255	2,831,283
Total Assets	72,365,074	81,986,117	154,351,191	7,386,760	642,002	8,028,762
Liabilities:						
Accounts payable and other current liabilities	1,344,796	5,004,179	6,348,975	3,187,161	-	3,187,161
Accrued interest payable	317,077	-	317,077	-	-	-
Due to fiduciary funds	725,080	-	725,080	-	-	-
Due to component unit	89,211	-	89,211	-	-	-
Deferred revenue	15,297,495	-	15,297,495	-	-	-
Customer deposits	278,885	-	278,885	-	-	-
Noncurrent liabilities:						
Portion due or payable within one year						
General obligation bonds payable	1,740,000	-	1,740,000	-	-	-
Compensated absences	702,088	232,699	934,787	272,264	-	272,264
Capital leases	99,979	-	99,979	60,734	-	60,734
Due in more than one year						
General obligation bonds payable	23,755,000	-	23,755,000	-	-	-
Compensated absences	680,285	190,421	870,706	435,344	-	435,344
Capital leases	221,838	-	221,838	75,489	-	75,489
Total Liabilities	45,251,734	5,427,299	50,679,033	4,030,992	-	4,030,992
Net Assets:						
Invested in capital assets, net of related debt	10,457,691	44,398,730	54,856,421	2,177,805	517,255	2,695,060
Unrestricted	16,655,649	32,160,088	48,815,737	1,177,963	124,747	1,302,710
Total Net Assets	\$ 27,113,340	\$ 76,558,818	\$ 103,672,158	\$ 3,355,768	\$ 642,002	\$ 3,997,770

The notes to the financial statements are an integral part of this statement.

Net (Expenses) Revenue and Changes in Net Assets

Program Revenues

Functions/Programs

Functions/Programs		Primary Government					Component Units				
		Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	School Board	Nonmajor Component Units	Total Component Units
Primary Government:	Governmental activities:										
	General government administration	\$ 3,533,147	\$ 72,966	\$ 192,541	\$ -	\$ (3,267,640)	\$ -	\$ (3,267,640)	\$ -	\$ -	\$ -
	Judicial administration	1,011,397	302,394	127,289	-	(581,714)	-	(581,714)	-	-	-
	Public safety	6,794,693	1,001,830	418,556	749,450	(4,624,857)	-	(4,624,857)	-	-	-
	Public works	4,747,665	221,919	747,190	-	(3,778,556)	-	(3,778,556)	-	-	-
	Health and welfare	2,666,535	-	977,588	-	(1,688,947)	-	(1,688,947)	-	-	-
	Education and payments to schools	20,248,502	-	-	-	(20,248,502)	-	(20,248,502)	-	-	-
	Parks, recreation, and cultural	2,759,046	654,627	235,201	-	(1,869,218)	-	(1,869,218)	-	-	-
	Community development	823,760	20,704	7,300	-	(795,756)	-	(795,756)	-	-	-
	Economic development	429,107	-	-	-	(429,107)	-	(429,107)	-	-	-
	Interest expense	1,397,595	-	-	-	(1,397,595)	-	(1,397,595)	-	-	-
	Total governmental activities		44,411,447	2,274,440	2,705,665	749,450	(38,681,892)	-	(38,681,892)	-	-
Business-type activities:											
Water	15,253,871	13,588,498	-	537,310	-	-	(1,128,063)	(1,128,063)	-	-	-
Sewer	1,952,604	1,724,179	-	-	-	-	(228,425)	(228,425)	-	-	-
Total business-type activities		17,206,475	15,312,677	-	537,310	-	(1,356,488)	(1,356,488)	-	-	-
Total Primary Government		\$ 61,617,922	\$ 17,587,117	\$ 2,705,665	\$ 1,286,760	\$ (38,681,892)	\$ (1,356,488)	\$ (40,038,380)	\$ -	\$ -	\$ -
Component Units:											
Education	24,826,542	1,642,389	3,585,991	155,777	-	-	-	-	(19,442,385)	(57,560)	(19,442,385)
Economic development	57,560	-	-	-	-	-	-	-	-	-	(57,560)
Total Component Units		\$ 24,884,102	\$ 1,642,389	\$ 3,585,991	\$ 155,777	\$ -	\$ -	\$ (19,442,385)	\$ (57,560)	\$ (19,499,945)	\$ (19,499,945)
General Revenues:											
Taxes:											
Real property						\$ 20,298,536	\$ -	20,298,536	\$ -	\$ -	\$ -
Personal property						2,501,478	-	2,501,478	-	-	-
Business licenses						2,343,068	-	2,343,068	-	-	-
Local sales & use						3,292,718	-	3,292,718	-	-	-
Consumer's utility						1,451,863	-	1,451,863	-	-	-
Motor vehicle decals						233,543	-	233,543	-	-	-
Recordation						137,924	-	137,924	-	-	-
Occupancy, tobacco, and other						2,242,346	-	2,242,346	-	-	-
Grants and contributions not restricted to specific programs						1,894,552	-	1,894,552	-	-	-
Revenue from use of money and property						252,369	701,016	963,385	94,236	6,261	100,497
Payment from primary government						-	-	-	19,863,096	65,240	19,928,336
Share of Commonwealth's lottery proceeds						-	-	-	91,015	-	91,015
Other						383,515	34,571	418,086	134,293	13,300	147,593
Transfers:											
Payments in lieu of taxes						87,500	(87,500)	-	-	-	-
Return on equity						4,625,874	(4,625,874)	-	-	-	-
Total General Revenues and Transfers						39,745,286	(3,977,787)	35,767,499	20,182,640	84,801	20,267,441
Change in net assets						1,063,394	(5,334,275)	(4,270,881)	740,255	27,241	767,496
Net assets at beginning of year						26,049,946	81,893,093	107,943,039	2,615,513	614,761	3,230,274
Net assets at end of year		\$	\$	\$	\$	27,113,340	\$76,558,818	\$103,672,158	\$3,355,768	\$642,002	\$3,997,770

The notes to the financial statements are an integral part of this statement

City of Falls Church, Virginia
Balance Sheet
Governmental Funds
As of June 30, 2003

		Other Governmental Fund	
	General	Capital Projects	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 17,022,259	\$ 327,853	\$ 17,350,112
Receivables, net			
Taxes	14,823,738	-	14,823,738
Accounts	140,612	-	140,612
Accrued interest	989,248	-	989,248
Due from other governmental units	2,609,432	-	2,609,432
Prepaid items	65,480	-	65,480
Inventories	129,907	-	129,907
Total Assets	\$ 35,780,676	\$ 327,853	\$ 36,108,529
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,334,238	\$ 10,558	\$ 1,344,796
Deferred revenue	16,498,047	-	16,498,047
Customer deposits	278,885	-	278,885
Due to other funds	727,587	15,457	743,044
Due to component units	89,211	-	89,211
Total Liabilities	18,927,968	26,015	18,953,983
Fund Balances:			
Reserved for:			
Encumbrances	599,762	151,496	751,258
Inventory	129,907	-	129,907
Prepaid items	65,480	-	65,480
Unreserved, reported in:			
General Fund:			
Designated for economic development	335,425	-	335,425
Undesignated	15,722,134	-	15,722,134
Capital Projects Fund:			
Designated for construction	-	150,342	150,342
Total Fund Balances	16,852,708	301,838	17,154,546
Total Liabilities and Fund Balances	\$ 35,780,676	\$ 327,853	\$ 36,108,529

City of Falls Church, Virginia
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
As of June 30, 2003

Fund balances - total governmental funds		\$ 17,154,546
Amounts reported for governmental activities in the Statement of Net Assets (Exhibit I) are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	56,811,578	
Less accumulated depreciation	<u>(20,537,069)</u>	36,274,509
Some of the City's receivables will not be collected soon enough to pay for the current period's expenditures and, therefore, are reported as deferred revenue in the funds:		
Delinquent property taxes (net of allowances)		1,200,552
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
General obligation bonds payable	(25,495,000)	
Compensated absences	(1,382,373)	
Capital leases payable	<u>(321,817)</u>	(27,199,190)
Interest on long-term liabilities is not accrued in the governmental funds, but is rather recognized as an expenditure when due.		<u>(317,077)</u>
Net Assets of Governmental Activities		\$ <u>27,113,340</u>

City of Falls Church, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

		Other Governmental Fund	
	General	Capital Projects	Total Governmental Funds
Revenues			
General property taxes	\$ 22,502,555	\$ -	\$ 22,502,555
Other local taxes	9,568,442	-	9,568,442
Permit, privilege fees, and regulatory licenses	415,000	-	415,000
Fines and forfeitures	763,707	-	763,707
Revenue from use of money and property	238,726	13,643	252,369
Charges for services	1,191,629	-	1,191,629
Miscellaneous	440,694	-	440,694
Recovered costs	1,976,842	-	1,976,842
Intergovernmental:			
Commonwealth	3,763,634	-	3,763,634
Federal	1,582,673	-	1,582,673
Total Revenues	42,443,902	13,643	42,457,545
Expenditures			
Current:			
General government administration	4,786,596	-	4,786,596
Judicial administration	962,887	-	962,887
Public safety	6,371,972	-	6,371,972
Public works	4,456,901	-	4,456,901
Health and welfare	2,664,254	-	2,664,254
Education and transfer to schools	19,338,550	432,909	19,771,459
Parks, recreation, and cultural	2,633,689	-	2,633,689
Community development	1,138,518	-	1,138,518
Economic development	428,264	-	428,264
Capital outlay	299,932	227,296	527,228
Debt service:			
Principal retirement	1,812,957	-	1,812,957
Interest and other fiscal charges	1,419,397	-	1,419,397
Total Expenditures	46,313,917	660,205	46,974,122
Excess/(deficiency) of revenues over expenditures	(3,870,015)	(646,562)	(4,516,577)
Other financing sources/(uses):			
Transfer from Enterprise Funds	4,713,374	-	4,713,374
Proceeds from capital leases	299,932	-	299,932
Total Other Financing Sources/(Uses)	5,013,306	-	5,013,306
Net Change in Fund Balances	1,143,291	(646,562)	496,729
Fund balances at beginning of year	15,709,417	948,400	16,657,817
Fund balances at end of year	\$ 16,852,708	\$ 301,838	\$ 17,154,546

City of Falls Church, Virginia
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities
 Governmental Activities
 As of June 30, 2003

Net change in fund balances - total governmental funds		\$ 496,729
Amounts reported for governmental activities in the Statement of Activities (Exhibit II) are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.		
Expenditures for capital assets	566,086	
Less current year depreciation and amortization	(2,011,001)	(1,444,915)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in deferred revenue related to taxes		218,073
The issuance of long-term debt (e.g., bonds, capital leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Rather, issuing debt increases long-term liabilities in the Statement of Net Assets and the repayment of debt reduces long-term liabilities in the Statement of Net Assets.		
Principal payments on bonds	1,685,000	
Principal payments on capital leases	127,957	1,812,957
Expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in compensated absence liability	(41,252)	
Change in accrued interest liability	21,802	(19,450)
Change in Net Assets of Governmental Activities		\$ 1,063,394

City of Falls Church, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual-General Fund
For the Year Ended June 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
General property taxes	\$ 21,685,546	\$ 21,685,546	\$ 22,502,555	\$ 817,009
Other local taxes	9,371,452	9,371,452	9,568,442	196,990
Permit, privilege fees, and regulatory licenses	229,210	229,210	415,000	185,790
Fines and forfeitures	569,000	569,000	763,707	194,707
Revenue from use of money and property	590,000	590,000	238,726	(351,274)
Charges for services	951,068	951,068	1,191,629	240,561
Miscellaneous	161,750	249,250	440,694	191,444
Recovered costs	2,034,673	2,034,673	1,976,842	(57,831)
intergovernmental:				
Commonwealth	3,765,914	3,915,914	3,763,634	(152,280)
Federal	775,000	1,640,000	1,582,673	(57,327)
Total Revenues	40,133,613	41,236,113	42,443,902	1,207,789
Expenditures				
Current:				
General government administration	4,533,110	5,056,923	4,786,596	270,327
Judicial administration	997,690	998,877	962,887	35,990
Public safety	6,002,047	6,609,047	6,371,972	237,075
Public works	4,972,830	5,447,830	4,456,901	990,929
Health and welfare	2,960,166	2,966,666	2,664,254	302,412
Education and transfer to schools	19,333,476	19,333,476	19,338,550	(5,074)
Parks, recreation, and cultural	2,692,602	2,692,602	2,633,689	58,913
Community development	1,257,758	1,328,758	1,138,518	190,240
Economic development	380,042	388,042	428,264	(40,222)
Capital outlay	-	-	299,932	(299,932)
Debt service:				
Principal retirement	1,685,002	1,685,002	1,812,957	(127,955)
Interest and other fiscal charges	1,584,838	1,569,838	1,419,397	150,441
Total Expenditures	46,399,561	48,077,061	46,313,917	1,763,144
Excess/(deficiency) of revenues over expenditures	(6,265,948)	(6,840,948)	(3,870,015)	2,970,933
Other financing sources/(uses):				
Transfer from Enterprise Funds	4,713,374	4,713,374	4,713,374	-
Proceeds from capital lease	-	-	299,932	299,932
Total Other Financing Sources/(Uses)	4,713,374	4,713,374	5,013,306	299,932
Net Change in Fund Balances	(1,552,574)	(2,127,574)	1,143,291	3,270,865
Fund balances at beginning of year	15,709,417	15,709,417	15,709,417	-
Fund balances at end of year	\$ 14,156,843	\$ 13,581,843	\$ 16,852,708	\$ 3,270,865

City of Falls Church, Virginia
Statement of Net Assets
Proprietary Funds
As of June 30, 2003

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Assets			
Current Assets:			
Cash and cash equivalents	\$ 31,264,941	\$ 4,078,850	\$ 35,343,791
Investments	253,360	-	253,360
Accounts receivable, net of allowance for uncollectibles	1,427,724	241,835	1,669,559
Due from other funds	17,461	502	17,963
Inventories	300,084	2,630	302,714
Total current assets	33,263,570	4,323,817	37,587,387
Noncurrent Assets:			
Capital assets:			
Non-depreciable:			
Land	2,594,882	-	2,594,882
Construction in progress	1,769,966	5,120	1,775,086
Depreciable:			
Buildings and systems	66,312,678	3,535,339	69,848,017
Machinery and equipment	947,614	100,700	1,048,314
Less accumulated depreciation	(29,447,264)	(1,420,305)	(30,867,569)
Total depreciable, net	37,813,028	2,215,734	40,028,762
Total capital assets, net	42,177,876	2,220,854	44,398,730
Total noncurrent assets	42,177,876	2,220,854	44,398,730
Total Assets	\$ 75,441,446	\$ 6,544,671	\$ 81,986,117
Liabilities and Net Assets			
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 4,727,084	\$ 277,095	\$ 5,004,179
Accrued compensated absences	226,216	6,483	232,699
Total current liabilities	4,953,300	283,578	5,236,878
Noncurrent liabilities:			
Compensated absences, net of current amount	187,849	2,572	190,421
Total Liabilities	5,141,149	286,150	5,427,299
Net Assets:			
Invested in capital assets, net of related debt	42,177,876	2,220,854	44,398,730
Unrestricted	28,122,421	4,037,667	32,160,088
Total Net Assets	70,300,297	6,258,521	76,558,818
Total Liabilities and Net Assets	\$ 75,441,446	\$ 6,544,671	\$ 81,986,117

City of Falls Church, Virginia
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2003

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating Revenues:			
Charges for services	\$ 12,389,261	\$ 1,693,889	\$ 14,083,150
Availability fees	1,199,237	30,290	1,229,527
Rentals	159,572	-	159,572
Miscellaneous	34,411	160	34,571
Total Operating Revenues	13,782,481	1,724,339	15,506,820
Operating Expenses:			
Source of supply	\$ 7,034,271	\$ -	7,034,271
Distribution system maintenance	1,905,456	-	1,905,456
Collection and disposal	-	1,552,997	1,552,997
Water connections	492,982	-	492,982
Pumping operations	313,120	-	313,120
Administration	4,104,462	315,840	4,420,302
Depreciation	1,390,845	83,767	1,474,612
Total Operating Expenses	15,241,136	1,952,604	17,193,740
Operating Loss	(1,458,655)	(228,265)	(1,686,920)
Nonoperating Revenues/(Expenses):			
Investment earnings	478,510	62,934	541,444
Loss on disposition of fixed assets	(12,735)	-	(12,735)
Total Nonoperating Revenue	465,775	62,934	528,709
Income Before Contributions and Transfers	(992,880)	(165,331)	(1,158,211)
Capital contributions	537,310	-	537,310
Transfers to General Fund:			
Payments in lieu of taxes	(57,000)	(30,500)	(87,500)
Return on equity	(4,625,874)	-	(4,625,874)
Change in Net Assets	(5,138,444)	(195,831)	(5,334,275)
Total net assets at beginning of year	75,438,741	6,454,352	81,893,093
Total net assets at end of year	\$ 70,300,297	\$ 6,258,521	\$ 76,558,818

City of Falls Church, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2003

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 21,624,331	\$ 1,687,855	\$ 23,312,186
Payments to suppliers	(8,196,722)	(1,527,988)	(9,724,710)
Payments to employees	(3,191,823)	(154,220)	(3,346,043)
Payments for interfund services used	(1,708,768)	(205,380)	(1,914,148)
Net Cash Provided by (Used in) Operating Activities	8,527,018	(199,733)	8,327,285
Cash Flows from Noncapital and Related Financing Activities			
Payments in lieu of taxes	(57,000)	(30,500)	(87,500)
Return on equity transfer to General Fund	(4,625,874)	-	(4,625,874)
Net Cash Used in Noncapital and Related Financing Activities	(4,682,874)	(30,500)	(4,713,374)
Cash Flows from Capital and Related Financing Activities			
Acquisition and construction of capital assets	(4,201,797)	-	(4,201,797)
Net Cash Used in Capital and Related Financing Activities	(4,201,797)	-	(4,201,797)
Cash Flows from Investing Activities			
Purchase of investments	(249,928)	-	(249,928)
Interest and dividends received	486,165	62,934	549,099
Net Cash Provided by Investing Activities	236,237	62,934	299,171
Net Decrease in Cash and Cash Equivalents	(121,416)	(167,299)	(288,715)
Cash and Cash Equivalents, Beginning of Year	31,386,357	4,246,149	35,632,506
Cash and Cash Equivalents, End of Year	\$ 31,264,941	\$ 4,078,850	\$ 35,343,791
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities:			
Operating loss	\$ (1,458,655)	\$ (228,265)	\$ (1,686,920)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation expense	1,390,845	83,767	1,474,612
Bad debt expense	2,900	909	3,809
Changes in operating assets and liabilities:			
(Increase)/decrease in:			
Accounts receivable	(930,876)	(35,981)	(966,857)
Inventory	(63,267)	(650)	(63,917)
Due to/from other funds	8,770,038	(502)	8,769,536
Increase/(decrease) in:			
Accounts payable and accrued liabilities	806,808	(18,823)	787,985
Accrued compensated absences	9,225	(188)	9,037
Total adjustments	9,985,673	28,532	10,014,205
Net Cash Provided by (Used in) Operating Activities	\$ 8,527,018	\$ (199,733)	\$ 8,327,285
Supplemental Schedule of Noncash Investing, Capital, and Financing Activities:			
Contributions of capital assets	\$ 537,310	\$ -	\$ 537,310
Increase in fair value of investments	\$ 3,432	\$ -	\$ 3,432

City of Falls Church, Virginia
Statement of Fiduciary Net Assets
As of June 30, 2003

	Pension Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 564,947	\$ 2,084,402
Investments:		
Corporate equity securities	27,103,969	-
Corporate bonds	15,200,121	-
Mutual funds	15,468,063	-
Total investments	57,772,153	-
Interest and dividend receivable	20,200	-
Other receivables	-	467,828
Due from general fund	-	818,073
Total Assets	58,357,300	3,370,303
Liabilities		
Accounts payable	4,977	-
Due to general fund	92,992	-
Due to other governments	-	3,370,303
Total Liabilities	97,969	3,370,303
Net Assets		
Held in trust for pension benefits	\$ 58,259,331	\$ -

City of Falls Church, Virginia
Statement of Changes in Fiduciary Net Assets—Pension Trust Funds
For the Year Ended June 30, 2003

Additions	
Employee contributions	\$ 23,828
Investment earnings:	
Interest	494,046
Dividends	1,070,955
Net increase in the fair value of investments	1,368,758
Total investment earnings	2,933,759
Less investment expense	(253,794)
Net investment earnings	2,679,965
Total Additions	2,703,793
Deductions	
Benefits	1,944,084
Administration	46,758
Total Deductions	1,990,842
Change in Net Assets	712,951
Net assets at beginning of year	57,546,380
Net assets at end of year	\$ 58,259,331

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Falls Church, Virginia (the City), is a municipal corporation incorporated as an independent city in 1948 under laws of the Commonwealth of Virginia, and is not part of any county. The City operates under a Council-Manager form of government and provides municipal services such as general administration, police, fire, street maintenance, sanitation, health and social services, recreation, library, planning and community development. Those services are either provided directly by the City or through contracts with the Counties of Arlington and Fairfax, Virginia. The City has its own water system that also serves a part of Fairfax County and a sewer system that only serves the City. Through one of its component units, the City of Falls Church Public School Board, the City provides elementary and secondary education to city residents.

A. Reporting Entity

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements (see Note II.B below for discussion) to emphasize that they are legally separate from the City and not a part of the primary government.

Blended component units. Blended component units, although legally separate entities, are in substance part of the government's operations. Characteristics of blended component units are having substantially the same members of its governing body as the primary government, and/or created to provide services directly to or for the primary government. The City has no blended component units.

Discretely presented component units. Discretely presented component units are legally separate entities for which the elected officials of the primary government are financially accountable, the entity's governing body is not substantially the same as that of the primary government, and the entities do not provide services solely to or for the benefit of the primary government.

The following organizations are reported as discretely presented component units. None of these component units publish their own financial reports.

The City of Falls Church Public School Board (the "School Board") is responsible for elementary and secondary education within the City's jurisdiction. The members of the School Board are elected. The School Board is fiscally dependent upon the City because the City's Council approves the School Board's budget, provides a substantial portion of the School Board's funds for operations.

The Falls Church Industrial Development Authority (IDA) was created by City Council to promote economic development through the issuance of industrial development revenue bonds. The City Council appoints all members of the IDA board. The IDA is fiscally accountable to the Council, and the City is potentially liable for any operating deficits. Additionally, the Council must approve all Authority debt issues.

The Falls Church Economic Development Authority (EDA) was created by City Council to promote economic development within the City. The City Council appoints all members of the EDA board. The EDA is fiscally accountable to the Council, and the City is potentially liable for any operating deficits. The Council must approve all EDA debt issues.

B. Basis of Presentation

Government-wide Financial Statements. The government-wide financial statements (i.e., the statement of net assets (Exhibit I) and the statement of activities (Exhibit II)) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from its component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other revenues not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements. The accounts of the reporting entity are organized on the basis of funds, each of which is considered to be a separate accounting entity. Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The emphasis of these financial statements is on major governmental and enterprise funds, which are presented in separate columns. All remaining governmental funds are aggregated and reported in one column as nonmajor funds.

The following are the major funds of the City:

Governmental Funds. The General Fund is the City's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Proprietary Funds. The Water Fund and the Sewer Fund are the two enterprise funds of the City. These funds are used to account for the financing, construction, and operations of the City's water and sewer systems.

The City has only one nonmajor governmental fund, which is the Capital Projects Fund. This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the Proprietary Funds).

The City also reports the following Fiduciary funds:

Pension Trust Funds. These funds are used to account for the activities of the City's two defined benefit pension plans, the Local Retirement Plan (Basic) and the Police Plan, which cover all regular and police employees of the City.

Agency Funds. These funds are used to account for assets held by the City in a trustee capacity or as an agent for the Fairfax County Water Authority and the Northern Virginia Criminal Justice Academy. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of operations.

C. Measurement Focus and Basis of Accounting

The City prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental entities.

1. Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are generally recorded when earned and expenses are recorded at the time a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been satisfied. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

Amounts reported as program revenues in the government-wide financial statements include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes. The City charges all costs except interest on long-term obligations and depreciation to the appropriate function at the time such costs are incurred. Depreciation has been allocated to each function. Interest on long-term obligations is shown as a separate line item in the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer funds are charges to customers for sales and services. The water fund also includes as operating revenue, the availability fees charged to new customers. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

For the pension trust funds, both member and employer contributions to each plan are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The City follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of applying subsequent private-sector guidance for their business-type activities and Proprietary Funds, subject to this same limitation. The City has elected not to apply this option.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the costs and program revenues reported for the various functions concerned.

2. Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues from the use of money and from intergovernmental reimbursement grants are recorded as earned. Other revenues are considered to be available when they are collectible within the current period or within 60 days thereafter. The primary revenues susceptible to accrual include property, business licenses, and other local taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recognized only when payment is due. General capital asset acquisitions are reported as capital outlays in governmental funds. Proceeds of general long-term debt acquisitions under capital leases are reported as other financing sources.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the City's cash and cash equivalents include certificates of deposit, Local Government Investment Pool assets, overnight repurchase agreements, short-term U.S. Government obligations and other highly liquid investments which are readily convertible to known amounts of cash and mature within three months of the date acquired by the City.

The City maintains cash and cash equivalents for all funds in a single pooled account, except for certain cash and investments required to be maintained in separate accounts in order to comply with provisions of grants and other agreements. The component units also invest in the pooled cash accounts. As of June 30, 2003, the pooled cash and cash equivalents have been allocated between the City and the respective component units based upon their respective ownership percentages. Interest earned, less an administrative charge, is generally allocated to the respective funds and component units based on each fund's or component unit's equity in the pooled account except when City Council authorizes the allocation of the fund's interest income into the General Fund.

City cash receipt and disbursement transactions are initiated in the General Fund. Amounts applicable to the other funds and component units are transferred thereto through interfund receivable and payable accounts.

2. Investments

Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost, which approximates fair value. Other investments are recorded at fair value. Investment purchases and sales are recorded as of the trade date. Investment income is allocated to each fund based on each fund's equity in the pooled account except when City Council authorizes the allocation of the fund's interest income into the General Fund.

3. Receivables and Payables

Activities within the funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide statement of net assets as "internal balances".

All trade and property taxes receivables, including those for the water and sewer funds, are shown net of an allowance for estimated uncollectible amounts. Unbilled water and sewer service bills are estimated at fiscal year end net of an estimated provision for uncollectible accounts.

Accounts payable and accrued liabilities include amounts due to vendors and employees for goods and services received as of June 30, 2003.

4. Inventories and Prepaid Items

All inventories are valued at the lower of cost (using the first in, first out method) or market. Inventories of both governmental and proprietary funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Capital Assets

Capital assets, which include land, buildings, improvements, machinery and equipment, library collections, and infrastructure assets (e.g., roads, sidewalks, water and sewer systems, and similar items), that individually cost \$5,000 or more, with useful lives greater than one year are reported in the proprietary funds and applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed and actual costs are not known. Donated capital assets are recorded at estimated fair value at the date of donation.

Capital assets are depreciated/amortized over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Infrastructure	20-50 years
Water system	20-40 years
Sewer system	20-40 years
Buildings	50 years
Improvements, other than buildings	20 years
Machinery and Equipment	5-20 years
Library collections	5 years
Software	3 years

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend their useful lives are not capitalized.

Major outlays for capital assets and improvements are initially capitalized as construction in progress and are transferred to buildings and improvements when the assets are substantially complete and placed in service.

6. Compensated Absences

All reporting entity employees earn annual leave and sick leave based on a prescribed formula. In addition, employees may accrue compensatory leave for hours worked in excess of their scheduled hours. Upon termination of employment, permanent City employees are entitled to payment of 100% of unused annual leave, generally 25% of all unused sick leave, and all of their compensatory leave not to exceed 40 hours for certain employees or 100 hours for other employees. School Board employees are paid up to 40 days of their annual leave and all sick leave at the rate of \$3.75 per hour.

A liability for these amounts is calculated using the employee's pay rate as of June 30, 2003, and is reported in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Such amounts are included in accounts payable and accrued liabilities shown in the City's and the School Board's governmental fund financial statements.

7. Long-term Obligations

In the government-wide and proprietary funds financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary funds statement of net assets.

8. Net Assets

Net assets are comprised of three categories: (1) net assets invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The first category represents the portion of net assets that is associated with non-liquid, capital assets, less the associated outstanding debt. Restricted net assets reflect the assets whose use is restricted by outside parties or legal constraints. Net assets, which are neither restricted nor invested in capital assets, are reported as unrestricted net assets. The City and School Board have no restricted net assets at June 30, 2003.

The City issues general obligation bonds to finance the construction of school facilities for the School Board because the School Board does not have borrowing or taxing authority. The City reports the outstanding obligations as a liability in its financial statements since the debt is issued and backed by the full faith and credit of the City. Pursuant to legislation passed by the Commonwealth of Virginia and accounting guidance provided by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, the capital assets acquired by such bond proceeds are reported as capital assets of the City in its government-wide financial statements until such time as the outstanding indebtedness is retired. Upon retirement of outstanding bonds, the net book value of such capital assets will be transferred to and reported in the School Board's government-wide financial statements.

9. Designations of Governmental Fund Unreserved Fund Balances and Enterprise Fund Net Assets

Designations of fund balance represent management's plans that are subject to change.

At June 30, 2003, approximately \$335,000 of the General Fund Unreserved Fund Balance has been designated by the City Council to be used to fund future economic development initiatives.

Additionally, at June 30, 2003, management has designated approximately \$26.1 million of the Water Fund unrestricted net assets to provide for future increased capacity as needed. Such net assets are primarily comprised of accumulated availability fees received from Water Fund customers.

E. Recovered Costs

Reimbursements from another government are recorded as recovered costs. Likewise, reimbursements from the Water and Sewer funds for services provided by the General Fund are reported as recovered costs in the governmental fund financial statements, and have been eliminated in the preparation of the government-wide financial statements. The total amount eliminated is approximately \$1.9 million.

F. Intergovernmental Agreements

During 2003, the City had agreements with several governmental units to provide certain governmental services to the City. They are detailed below:

1. County of Fairfax

The City, the County of Fairfax (the County), and the City of Fairfax comprise the Fairfax-Falls Church Community Services Board (CSB), established under State mandate in 1969, to provide mental health, mental retardation and drug and alcohol abuse treatment services to residents of the three jurisdictions. The CSB uses the County as its fiscal agent. Payments to CSB are recorded as expenses in the government-wide financial statements and as expenditures in the General Fund financial statements. During 2003, the City paid CSB approximately \$581,000.

The City also makes payments to the County for the full cost of the local portion of public assistance payments and for the use of special County health facilities by the City's residents. During 2003, the City paid the County approximately \$555,000 for these services. Such payments are recorded as expenses in the government-wide financial statements and as expenditures in the General Fund.

2. Fairfax County Water Authority

The City also has an agreement with the Fairfax County Water Authority (FCWA) to purchase water from FCWA and to share in the cost of its sewage treatment facilities. During 2003, the City paid the FCWA approximately \$1.4 million for water and \$1.4 million for sewage treatment costs. These are recorded as expenses in the Enterprise Funds.

3. County of Arlington

The City contracts its fire and rescue, and judicial services, to Arlington County, Virginia. During 2003, the City paid Arlington County approximately \$1.2 million and \$260,000, respectively, for these services.

The City also receives payment from Arlington County for Arlington County's share of the cost of operating a girls' home facility. Payments received during 2003 amounted to approximately of \$280,000 and are recorded as revenues in the General Fund financial statements as well as the City's government-wide financial statements.

4. United States Department of Army Corp. of Engineers (Department of Army)

The City has an agreement with the Department of Army to purchase water and to share water treatment facility capital costs. For the fiscal year ended June 30, 2003, the City paid approximately \$3.2 million to the Department of Army for water, which is recorded as an expense in the Enterprise Funds. The water treatment facility costs were capitalized in prior years, and a corresponding liability was recorded in the Enterprise Funds. For the fiscal year ended June 30, 2003, the City paid approximately \$831,000 towards facility expansion and upgrade costs.

5. Northern Virginia Criminal Justice Training Academy (NVCJA)

Along with other local jurisdictions, the City entered into an agreement to assist in financing the operations and debt service of NVCJA. NVCJA was established to provide training to local law enforcement officers. The City appoints members of the governing body of NVCJA, however, it does not retain an ongoing financial interest in NVCJA. The City paid NVCJA approximately \$37,000 for its share of the operating and debt service costs for the fiscal year ended June 30, 2003. These are recorded as expenses in the General Fund.

G. Joint Ventures

1. Northern Virginia Transportation Commission (NVTC)

The NVTC is a joint venture among the cities of Alexandria, Fairfax, and Falls Church and the counties of Arlington, Fairfax, and Loudoun. It was established to improve the transportation systems composed of transit facilities, public highways, and other modes of transportation. The Commonwealth of Virginia has authorized a 2% fuel tax to be used for transportation systems through NVTC. While each jurisdiction effectively controls NVTC's use of motor fuel tax proceeds from that jurisdiction, they do not have an explicit measurable equity interest in NVTC. Information regarding NVTC is provided in NVTC's separate, published financial statements, which are available to the general public from its offices at 4350 North Fairfax Drive, Suite 720, Arlington, VA 20243.

2. Washington Metropolitan Area Transit Authority (WMATA)

The City participates in a joint venture with other local jurisdictions to share in the cost of a regional transportation system. The City does not maintain an equity interest in WMATA. The City is required to make certain contributions annually to WMATA pursuant to the Interjurisdictional Funding Agreement for Bus Service and the Fifth Interim Capital Contributions Agreement, which were executed in fiscal years 1999 and 1992, respectively. During the fiscal year ended June 30, 2003, the City's required contributions amounted to approximately \$1.3 million, of which, the City paid approximately \$280,000 from the General Fund and approximately \$1 million through its participation in the NVTC. The City anticipates its annual required contribution in fiscal year 2004 to be consistent with fiscal year 2003. Complete financial statements of WMATA may be obtained from WMATA, 600 5th Street, NW, Washington, DC 20001.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Formal budgetary integration is employed as a management control device during the year. Budgets for all governmental funds of the primary government and component units are adopted by the City Council on an annual basis consistent with GAAP. The Council adopts project length budgets for the capital projects funds.

The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

- a. On a date fixed by the Council, the City Manager submits to the Council budgets for the general operation of the City government for the fiscal year commencing July 1.
- b. Public hearings are conducted to obtain citizen comments.
- c. The budget is legally enacted through passage of an appropriation ordinance. If, for any reason, the Council fails to adopt the appropriation ordinance prior to July 1, the previous fiscal year's budget remains in effect on a month-to-month basis until the Council adopts the budgets.
- d. The appropriation ordinance places legal restrictions on expenditures at the fund level. Only the Council can revise the appropriation for each fund. The City Manager is authorized to transfer unencumbered balances within departments.
- e. The action of the Council on the school budget relates to the total budget only and the School Board has the authority to expend at its discretion the sum appropriated for its use, provided that if it receives an appropriation greater or less than its original request, it must revise its estimates of expenditures and adjust appropriations accordingly. The School Board has the power to order transfers from one item of appropriation to another during the course of the fiscal year.
- f. Unencumbered appropriations lapse on June 30 for all City units except for those of the Capital Projects Fund, which are carried into the following year on a continuing appropriation basis.
- g. Original and final budgeted amounts are shown; amendments were not significant in relation to the original budget. Budget amendments may be approved by the City Council subsequent to adoption of the original budget throughout the year.

III. DETAILED NOTES ON ALL FUNDS

A. Cash, Cash Equivalents and Investments

1. Deposits

As of June 30, 2003, all of the reporting entity's deposits were covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (Act). The Act provides for the pooling of collateral pledged with the Treasurer of Virginia to secure

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
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public deposits as a class. No specific collateral can be identified as security for one public depositor and public depositors are prohibited from holding collateral in their name as security for deposits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loan associations. A multiple financial institution collateral pool that provides for additional assessments is similar to depository insurance. If any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. If the value of the pool's collateral were inadequate to cover the loss, additional amounts would be assessed on a pro rata basis to the members of the pool. Therefore, funds deposited in accordance with the requirements of the Act are considered to be fully insured.

The following is a summary of the reporting entity's public deposits and petty cash as of June 30, 2003:

Public Deposits and Petty Cash as of June 30, 2003		
	Carrying Value	Bank Balance
Deposits:		
Primary government	\$ 301,358	\$ 2,042,519
Component units	26,083	26,083
Total deposits	327,441	2,068,602
Petty Cash:		
Primary government	3,771	-
Component units	4,300	-
Total petty cash	8,071	-
Total Deposits and Petty Cash	\$ 335,512	\$ 2,068,602

The differences between carrying values and bank balances generally result from checks outstanding and deposits in transit as of June 30, 2003.

2. Allowed Investments

Except for its pension funds, under the Virginia Investment of Public Funds Act, the reporting entity is authorized to purchase the following investments:

- Commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record
- Money market funds
- Bankers acceptances
- Repurchase agreements
- Medium term corporate notes
- Local Government Investment Pool
- U.S. Treasury and agency securities
- Obligations of the Asian Development Bank
- Obligations of the African Development Bank

- Obligations of the International Bank for Reconstruction and Development
- Obligations of the Commonwealth of Virginia and its instrumentalities
- Obligations of counties, cities, towns, and other public bodies located within the Commonwealth of Virginia
- Obligations of states and local government units located within other states
- Savings accounts or time deposits in any bank or savings and loan association within the Commonwealth of Virginia that complies with the Virginia Security for Public Deposits Act

3. Pension Fund Investments

The authority to establish pension funds is set forth in the Code of Virginia, which authorizes the following investments for pension funds:

- U.S. Treasury and agency securities
- Obligations of the Commonwealth of Virginia and its instrumentalities
- Obligations of counties, cities, towns, and other public bodies located within the Commonwealth of Virginia
- Obligations of states and local government units located within other states
- Obligations of the Asian Development Bank
- Obligations of the African Development Bank
- Obligations of the International Bank for Reconstruction and Development

In addition, the Code of Virginia allows for investments of pension funds in other securities, including common and preferred stocks and corporate bonds, which meet the standard of judgment and care set forth in the Code.

4. Custodial Credit Risk Categories

The reporting entity's investments are categorized into the following three categories:

- a. Category 1 - includes investments that are insured or registered or for which the reporting entity or its safekeeping agent in the reporting entity's name holds the securities;
- b. Category 2 - includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or safekeeping agent in the reporting entity's name; and
- c. Category 3 - includes uninsured and unregistered investments for which the securities are held by the counterparty, or its trust department or safekeeping agent but not in the reporting entity's name.

All of the reporting entity's investments are Category 1 investments, except for mutual funds and investments with the LGIP, which are not categorized because such investments are not evidenced by specific securities.

CITY OF FALLS CHURCH, VIRGINIA
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The reporting entity's investments, which are reported at fair value, as of June 30, 2003 are as follows:

Investments Reported at Fair Value as of June 30, 2003	
	Carrying Value
Primary Government:	
Categorized investments:	
Repurchase agreements	\$ 10,378,000
U.S. Government securities	10,088,999
Pension Trust Funds:	
Common and Preferred Stocks	27,103,969
Corporate Bonds	15,200,121
	62,771,089
Uncategorized investments:	
Local Government Investment Pool	34,824,484
Mutual Funds – Pension Trust Funds	15,468,063
	50,292,547
Total investments – Primary Government	113,063,636
School Board:	
Uncategorized investments:	
Local Government Investment Pool	4,370,310
Total investments – School Board	4,370,310
Industrial Development Authority:	
Uncategorized investments:	
Local Government Investment Pool	124,747
Total investments – Industrial Development Authority	124,747
Total-All Investments	\$ 117,558,693

Cash, cash equivalents and investment balances are shown in the financial statements as follows:

Cash, Cash Equivalents and Investment Balances as of June 30, 2003	
	Carrying Value
<u>Statement of Net Assets (Exhibit I)</u>	
Cash and cash equivalents:	
Primary Government	\$ 52,693,903
Component Units	4,525,440
Investments:	
Primary Government	253,360
<u>Statement of Fiduciary Net Assets (Exhibit XI)</u>	
Cash and cash equivalents:	
Pension Trust Funds	564,947
Agency Funds	2,084,402
Investments:	
Pension Trust Funds	57,772,153
Total	\$ 117,894,205

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2003

B.Receivables

Receivables and allowances for uncollectible receivables of the primary government as of June 30, 2003, consist of the following:

Receivables and Allowances for Uncollectible Receivables as of June 30, 2003						
	General Fund	Water Fund	Sewer Fund	Total	Fiduciary Funds	Total Primary Government
Receivables:						
Accounts	\$ 140,612	\$ 1,462,724	\$ 248,835	\$ 1,852,171	\$ -	\$ 1,852,171
Accrued interest	989,248	-	-	989,248	20,200	1,009,448
Property taxes:						
Delinquent	1,597,290	-	-	1,597,290	-	1,597,290
Not yet due	13,516,448	-	-	13,516,448	-	13,516,448
Total receivables	16,243,598	1,462,724	248,835	17,955,157	20,200	17,975,357
Allowances for uncollectibles:						
Accounts	-	35,000	7,000	42,000	-	42,000
Property taxes:						
Delinquent	240,749	-	-	240,749	-	240,749
Not yet due	49,251	-	-	49,251	-	49,251
Total allowances for uncollectibles	290,000	35,000	7,000	332,000	-	332,000
Total Net Receivables	\$ 15,953,598	\$ 1,427,724	\$ 241,835	\$ 17,623,157	\$ 20,200	\$ 17,643,357

Delinquent property taxes receivable from taxpayers in the General Fund as of June 30, 2003, consist of the following:

Delinquent Property Taxes Receivable as of June 30, 2003			
	Real Estate	Personal Property	Total
Year of Levy			
2003	\$ 552,827	\$ -	\$ 552,827
2002	274,825	210,229	485,054
2001	75,756	97,119	172,875
2000	37,096	82,589	119,685
Prior Years	157,587	109,262	266,849
Total delinquent taxes	1,098,091	499,199	1,597,290
Allowances for uncollectibles			(240,749)
Net delinquent tax receivables			\$ 1,356,541

The City's real estate tax is levied at a rate enacted by City Council on the assessed value of property located in the City as determined by the City's real estate assessor as of January 1 of each year. Properties are assessed at 100% of fair market value of all land and improvements. Real property taxes are levied when the budget is adopted and collected in two installations due on June 5 and December 5. Based on collection history of real property taxes, the City has not provided for an allowance for uncollectibles.

Personal property taxes on vehicle and business property are levied as of January 1 of each year, based on their estimated fair market value, and are due on October 5. The allowance of \$290,000 is based on prior collections.

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The City reports real estate and personal property taxes (net of allowances) assessed for calendar year 2003 as receivables and deferred revenue because the City has an enforceable legal claim to these resources at June 30, 2003; however, some of these resources, which amount to \$10,353,400 for real property and \$4,933,481 for personal property, will not be available to the City until fiscal year 2004. A detailed breakdown of the components of deferred revenue at June 30, 2003 can be found at note III E.

Receivables of component units as of June 30, 2003, consist of the following:

Receivables of Component Units as of June 30, 2003	
	School Board
Receivables:	
Accounts	\$ 71,288
Total receivables	71,288
Allowances for uncollectibles	-
Total net receivables	\$ 71,288

Based on prior years collection history, no allowance is deemed necessary for the receivables of the component units.

C. Interfund Balances and Transfers

The City's cash receipt and disbursement transactions are initiated in the General Fund. Amounts applicable to the other funds are transferred thereto through interfund receivable and payable accounts. The balances in interfund receivables and payables result when funds overdraw their share of the pooled cash. All amounts are expected to be paid within one year. The following comprise the interfund balances as of June 30, 2003:

Interfund Balances as of June 30, 2003		
	Interfund Receivables	Interfund Payables Balance
Primary Government:		
General Fund	\$ -	\$ 727,587
Nonmajor Governmental Fund	-	15,457
Enterprise Funds:		
Water Fund	17,461	-
Sewer Fund	502	-
Fiduciary Funds		
Pension Trust Funds	-	92,992
Agency Funds	818,073	-
Total primary government	\$ 836,036	\$ 836,036

The primary purpose of interfund transfers is to provide funding for operations and capital projects. Interfund transfers for the year ended June 30, 2003, are as follows:

CITY OF FALLS CHURCH, VIRGINIA
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Interfund Transfers as of June 30, 2003

	Interfund Transfers In	Interfund Transfers Out
Primary Government:		
General Fund	\$ 4,713,374	\$ -
Enterprise Funds:		
Water Fund	-	4,682,874
Sewer Fund	-	30,500
Total primary government	\$ 4,713,374	\$ 4,713,374

D. Capital Assets

The primary government has restated the balances of capital assets at July 1, 2002, to include infrastructure assets and library collections as well as accumulated depreciation on all of its depreciable capital assets in connection with its implementation of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, and related standards (see Note VII). As a result, the net capital asset balances for the governmental activities of the primary government were reduced by approximately \$13.7 million.

Capital assets activity for the primary government for the year ended June 30, 2003, is as follows:

**Capital Assets Activity for the Primary Government
for the Year Ended June 30, 2003**

	Balances July 1, 2002 as restated	Increases	Decreases	Balances June 30, 2003
Primary Government:				
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,048,900	\$ -	\$ -	\$ 4,048,900
Construction in progress	99,404	213,021	-	312,425
Total capital assets not being depreciated	4,148,304	213,021	-	4,361,325
Capital assets being depreciated:				
Buildings and systems	32,167,893	-	-	32,167,893
Improvements other than buildings	2,262,103	-	-	2,262,103
Machinery and equipment	6,411,141	299,932	-	6,711,073
Software	1,138,695	71,449	-	1,210,144
Infrastructure	8,212,366	63,219	-	8,275,585
Library collections	1,605,056	218,398	-	1,823,454
Total capital assets being depreciated	51,797,254	652,998	-	52,450,252
Less accumulated depreciation for:				
Buildings and systems	8,326,774	641,627	-	8,968,401
Improvements other than buildings	802,905	112,148	-	915,053
Machinery and equipment	3,452,760	506,678	-	3,959,438
Software	430,934	379,565	-	810,499
Infrastructure	4,455,141	163,512	-	4,618,653
Library collections	1,057,554	207,471	-	1,265,025
Total accumulated depreciation	18,526,068	2,011,001	-	20,537,069
Total capital assets, being depreciated, net	33,271,186	(1,358,003)	-	31,913,183
Total capital assets, net - Governmental activities	\$ 37,419,490	\$ (1,144,982)	\$ -	\$ 36,274,508

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2003

**Capital Assets Activity for the Primary Government
for the Year Ended June 30, 2003 (continued)**

	Balances July 1, 2002 as restated	Increases	Decreases	Balances June 30, 2003
Primary Government (continued):				
Business-Type activities:				
<u>Water Fund</u>				
Capital assets not being depreciated:				
Land	\$ 2,594,882	\$ -	\$ -	\$ 2,594,882
Construction in Progress	1,801,615	1,701,124	1,732,773	1,769,966
Total capital assets not being depreciated	4,396,497	1,701,124	1,732,773	4,364,848
Capital assets being depreciated:				
Buildings and systems	61,717,012	4,659,338	63,672	66,312,678
Machinery and equipment	1,234,634	111,419	398,439	947,614
Total capital assets being depreciated	62,951,646	4,770,757	462,111	67,260,292
Less accumulated depreciation for:				
Buildings and systems	27,546,503	1,340,404	50,937	28,835,970
Machinery and equipment	959,292	50,441	398,439	611,294
Total accumulated depreciation	28,505,795	1,390,845	449,376	29,447,264
Total capital assets being depreciated, net	34,445,851	3,379,912	12,735	37,813,028
Total capital assets, net - Water	38,842,348	5,081,036	1,745,508	42,177,876
<u>Sewer Fund</u>				
Capital assets not being depreciated:				
Construction in progress	5,120	-	-	5,120
Total capital assets not being depreciated	5,120	-	-	5,120
Capital assets being depreciated:				
Buildings and systems	3,535,339	-	-	3,535,339
Machinery and equipment	129,873	-	29,173	100,700
Total capital assets being depreciated	3,665,212	-	29,173	3,636,039
Less accumulated depreciation for:				
Buildings and systems	1,305,069	71,179	-	1,376,248
Machinery and equipment	60,642	12,588	29,173	44,057
Total accumulated depreciation	1,365,711	83,767	29,173	1,420,305
Total capital assets being depreciated, net	2,299,501	(83,767)	-	2,215,734
Total capital assets, net - Sewer	2,304,621	(83,767)	-	2,220,854
Total capital assets, net - Business-type activities	41,146,969	4,997,269	1,745,508	44,398,730
Total capital assets, net - Primary Government	\$ 78,566,459	\$ 3,852,287	\$ 1,745,508	\$ 80,673,238

The School Board component unit also restated the balances of capital assets at July 1, 2002, to include library collections and accumulated depreciation in accordance with its implementation of GASB Statement No. 34 (see Note VII). Other reclassifications and adjustments were also included in capital assets as a result of the implementation of GASB Statement No. 34. As a result, the net capital asset balances for the School Board were reduced by approximately \$2.2 million.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2003

Capital assets activity for component units for the year ended June 30, 2003, is as follows:

Capital Assets Activity for Component Units for the Year Ended June 30, 2003				
	Balances July 1, 2002 as restated	Increases	Decreases	Balances June 30, 2003
Component Units:				
School Board:				
Capital assets not being depreciated:				
Land	\$ 743,354	\$ -	\$ -	\$ 743,354
Total capital assets not being depreciated	743,354	-	-	743,354
Capital assets being depreciated:				
Buildings and systems	922,669	-	-	922,669
Machinery and equipment	1,065,489	90,051	-	1,155,540
Library collections	394,230	42,208	-	436,438
Total capital assets being depreciated	2,382,388	132,259	-	2,514,647
Less accumulated depreciation for:				
Buildings and systems	51,426	18,453	-	69,879
Machinery and equipment	448,134	93,502	-	541,636
Library collections	289,026	43,432	-	332,458
Total accumulated depreciation	788,586	155,387	-	943,973
Total capital assets, net - School Board	2,337,156	(23,128)	-	2,314,028
Nonmajor Component Units:				
Capital assets not being depreciated:				
Land	517,255	-	-	517,255
Total capital assets not being depreciated	517,255	-	-	517,255
Total capital assets - Nonmajor Component Units	517,255	-	-	517,255
Total capital assets, net - Component Units	\$ 2,854,411	\$ (23,128)	\$ -	\$ 2,831,283

Depreciation expense for the year ended June 30, 2003, charged to the functions of the primary government and component units is as follows:

Depreciation Expense by Function for the Year Ended June 30, 2003			
	Primary Government	Component Units	Total
Primary Government: Governmental activities:			
General government administration	\$ 310,650	\$ -	\$ 310,650
Judicial administration	34,439	-	34,439
Public safety	385,376	-	385,376
Public works	462,421	-	462,421
Health and welfare	3,065	-	3,065
Education	477,043	-	477,043
Parks, recreation, and cultural	334,804	-	334,804
Community development	3,203	-	3,203
Business-type activities:			
Water administration	1,390,845	-	1,390,845
Sewer administration	83,767	-	83,767
Component Units:			
School Board			
Education	-	155,387	155,387
Total depreciation expense	\$ 3,485,613	\$ 155,387	\$ 3,641,000

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
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E. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of June 30, 2003, the following comprise the deferred revenue reported in the governmental funds:

Deferred Revenue as of June 30, 2003

Unavailable:	
Delinquent property taxes	\$ 1,200,572
Property taxes not yet due	15,286,881
Unearned:	
Restricted donations for which requirements have not been met	10,594
Total deferred revenue	\$ 16,498,047

F. Long-term Obligations

The following is a summary of changes in the government-wide long-term obligations of the reporting entity for the year ended June 30, 2003:

Summary of Changes in the Government-Wide Long-Term Obligations for the Year Ended June 30, 2003

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Due Within One Year
Primary Government: Governmental activities					
General obligation bonds payable	\$ 27,180,000	\$ -	\$ 1,685,000	\$ 25,495,000	\$ 1,740,000
Compensated absences	1,341,121	41,252	-	1,382,373	702,088
Obligations under capital leases	149,841	299,932	127,957	321,816	99,979
Total long-term debt - Governmental activities	28,670,962	341,184	1,812,957	27,199,189	2,542,067
Business-type activities:					
Compensated absences - Water Fund	404,840	9,225	-	414,065	226,216
Compensated absences - Sewer Fund	9,243	-	188	9,055	6,483
Total long-term debt - Business-type activities	414,083	9,225	188	423,120	232,699
Total long-term debt - Primary Government	29,085,045	350,409	1,813,145	27,622,309	2,774,766
Component Units					
School Board:					
Compensated absences	678,844	28,764	-	707,608	272,264
Obligations under capital leases	140,774	63,250	67,801	136,223	60,734
Total long-term debt - School Board	819,618	92,014	67,801	843,831	332,998
Total long-term debt - Component Units	819,618	92,014	67,801	843,831	332,998
Total long-term debt	\$ 29,904,663	\$ 442,423	\$ 1,880,946	\$ 28,466,140	\$ 3,107,764

1. General Obligation Bonds

General obligation bonds have been issued to provide funding for long-term capital improvements. In addition, they have been issued to refund outstanding general obligation bonds when market conditions enabled the City to achieve significant reductions in its debt service payments. Such bonds are direct obligations of the City, and the full faith and credit of the City are pledged as security. The City is required to submit to public referendum for authority to issue general

CITY OF FALLS CHURCH, VIRGINIA
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obligation bonds. At June 30, 2003, all authorized general obligation bonds have been issued. The following are the general obligation bonds that were outstanding as of June 30, 2003:

Outstanding General Obligation Bonds as of June 30, 2003

\$8,140,000 General Improvement bonds issued December 15, 1995 to refund 1991 General Obligation bonds; variable amounts maturing annually with interest payable semi-annually; final payment due on April 1, 2011; interest at various rates	\$5,930,000
\$9,000,000 General Improvement bonds issued June 1, 2000; variable amounts maturing annually with interest payable semi-annually; final payment due on December 15, 2020; interest at various rates	8,495,000
\$2,155,000 School Construction bonds, consolidated refunding bonds issued December 1993 by the Virginia Public School Authority to replace the 1968 bond issues; interest at various rates; variable amounts maturing through December 2008	705,000
\$13,425,000 School Construction bonds issued August 1, 1993; interest ranging from 4.8% to 5.5%; variable amounts maturing through August 1, 2013	8,735,000
\$2,445,000 School Construction bonds issued May 2, 1996 by VPSA; interest at various rates; variable amounts maturing through January 15, 2017	1,630,000
Total General Obligation Bonds Payable	\$25,495,000

Annual debt service requirements to maturity for the long-term obligations serviced by the General Fund as of June 30, 2003 are summarized as follows:

Annual Debt Service Requirements to Maturity as of June 30, 2003

	Principal	Interest	Total
Fiscal Year Ending June 30			
2004	\$ 1,740,000	\$ 1,312,359	\$ 3,052,359
2005	1,850,000	1,220,500	3,070,500
2006	1,910,000	1,124,926	3,034,926
2007	1,985,000	1,026,886	3,011,886
2008	2,065,000	924,458	2,989,458
2009-2013	9,615,000	2,993,226	12,608,226
2014-2018	4,245,000	1,066,430	5,311,430
2019-2021	2,085,000	181,978	2,266,978
Total	\$ 25,495,000	\$ 9,850,763	\$ 35,345,763

As of June 30, 2003, the City's legal debt margin is \$156,576,680.

2. Obligations Under Capital Leases

The City and School Board lease computers, equipment, vehicles and buses under various capital leases expiring at various dates through 2008. All leases are non-cancelable except that they are contingent upon City Council appropriating funds for each year's payment.

The assets acquired through capital leases are as follows:

Assets Acquired through Capital Leases		
	Primary Government Governmental Activities	Component Unit School Board
Asset:		
Machinery and equipment	\$ 616,931	\$ 330,396
Less: accumulated depreciation	(290,800)	(64,835)
Total	\$ 326,131	\$ 265,561

The future minimum lease payments and net present value of these minimum lease payments as of June 30, 2003 are as follows:

Future Minimum Lease Payments		
	Primary Government Governmental Activities	Component Unit School Board
Fiscal Year Ending June 30		
2004	\$ 112,971	\$ 69,306
2005	94,917	38,822
2006	90,958	30,387
2007	43,991	13,982
2008	7,022	-
Total minimum lease payments	349,859	152,497
Less: amount representing interest	28,043	16,274
Present value of minimum lease payments	\$ 321,816	\$ 136,223

G. Long-term Commitments

1. Operating Lease Commitments

The City and School Board lease office facilities and other equipment under various long-term lease agreements. Total costs for such leases were \$351,008 to the City and \$202,469 to the School Board for the fiscal year ended June 30, 2003. The future minimum lease payments for these leases are as follows:

Future Minimum Lease Payments		
	Primary Government Governmental Activities	Component Unit School Board
Fiscal Year Ending June 30		
2004	\$ 377,449	\$ 270,217
2005	219,080	233,844
2006	-	206,431
2007	-	86,041
2008	-	37,855
Total	\$ 596,529	\$ 834,388

2. Long-term Construction and Improvement Contracts

The City has the following active construction and improvement commitments as of June 30, 2003:

Active Construction and Improvement Commitments as of June 30, 2003		
	Spent-to-Date	Remaining Commitment
Governmental activities:		
Broad Street Streetscape	\$ 158,670	\$ 150,123
National Pollutant Discharge Elimination System Phase II Study	31,188	2,712
Storm Utility Study	104,950	5,050
Total governmental activities	294,808	157,885
Business-type activities:		
Water Fund		
Tyson's Water Storage Tank	903,355	1,784,645
Sewer Fund		
Sanitary Sewer Improvements	122,629	327,009
Total business-type activities	1,025,984	2,111,654
Total	\$ 1,320,792	\$ 2,269,539

3. Other Post-employment Benefits

The City provides post-retirement health care insurance benefits for employees who are eligible for retirement benefits. Currently, approximately 179 retirees (including former City and School Board employees) are receiving these benefits. The City pays one-half of the health insurance premiums for these employees. These costs are financed on a pay-as-you-go basis. For fiscal year 2003, the cost of these benefits was approximately \$148,000 to the City and approximately \$99,500 to the School Board.

H. Return on Equity Transfer

During the fiscal year ended June 30, 2003, the Water Fund transferred \$4,625,874 to the General Fund based on a calculation of 7.5% of total fund equity in the Water Fund at June 30, 2002. This is a transfer of excess operating funds, which, per City Council, can then be reappropriated for General Fund expenditures.

I. Conduit Debt

The City, through the Falls Church Economic Development Authority and the Industrial Development Authority, encourages private industry to locate and remain in the City by, among other things, the issuance of tax-exempt bonds. The funds provided from the sale of such debt have been used to provide affordable housing in the City and for the expansion of private business to increase employment and the City's tax base. These bonds do not constitute indebtedness or a charge against the general credit or taxing power of the City or its component units. The bond indentures explicitly state the absence of any legal obligation by the City or the component units to repay the indebtedness. As of June 30, 2003, there are two such bond issues outstanding with an aggregate outstanding principal balance of approximately \$2.6 million.

IV. RETIREMENT PLANS

Full time, salaried employees of the City and School Board participate in one of three retirement plans, the Virginia Retirement System (VRS), the basic City pension plan, and the City's police pension plan.

A. Virginia Retirement System

1. Plan Description

The City and the School Board contribute to VRS, a cost-sharing multiple-employer public employee defined pension plan administered by the Commonwealth of Virginia for its political subdivisions. All full time salaried employees of constitutional offices within the City (i.e., employees of the office of the Commissioner of Revenue, the office of the Treasurer and the Sheriff's Department), as well as qualifying (working at least 80% of full time) teachers and other professionals from the School Board participate in the VRS.

Benefits vest after five years of creditable service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60 for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employees (age 50 with 25 years for participating law enforcement officers and firefighters). Employees who retire with a reduced benefit at age 55 (age 50 for participating law enforcement officers and firefighters) with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount equal to 1.7 % of their average final salary (AFS) for each year of credited service. An optional reduced retirement benefit is available to members of VRS as early as age 50 with 10 years of credited service. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State Legislature.

The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the VRS. A copy of that report may be obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

2. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. The School Board has assumed this 5% member contribution for school employees. Beginning in May 2003, the City also assumed this contribution for eligible City employees. Prior to this, City employees paid the contribution. In addition, the City and the School Board are required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City's and the School Board's contribution rate for the fiscal year ended 2003 were 0.0% and 4.44% of annual covered payroll, respectively.

3. Annual Pension Costs

The City's annual pension cost and contributions made during fiscal year 2003 was \$4,465. The School Board's annual pension cost and contributions made during fiscal year 2003 was \$1,220,949. These include the contributions made by the City and the School Board made on behalf of their respective employees .

The following table shows the required annual pension costs and the percentage contributed for the City and School Board employees for the last three years:

Required Pension Costs and Contributions for the Past Three Years			
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Fiscal Year Ended June 30			
City			
2003	\$ 4,465	100%	\$ -
2002	744	100%	-
2001	11,460	100%	-
School Board			
2003	1,220,949	100%	-
2002	1,005,544	100%	-
2001	807,123	100%	-

B. Basic and Police Pension Plans

1. Plan Description

The City's Local Retirement Plan (Basic) is a multiple-employer defined benefit pension plan, covering all permanent employees of the City who are scheduled to work twenty hours or more per week, except police officers who are covered under the Police Pension Plan. School Board employees who work less than 80% of full time and are not eligible to participate in VRS, but meet the City pension plan's requirements, are eligible for the City's basic pension plan.

The Police Pension plan is a single-employer defined benefit pension plan covering the City's police officers that work more than twenty hours per week.

Both plans are authorized by the City Council, and are administered by the City. Benefit provisions are established and amended by City ordinances. Participants are 100% vested after five years of participation.

Member and employee contributions to the Plans are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due in accordance with the terms of the Plans.

Upon retirement, a participant in either of the two City Plans would receive a monthly retirement allowance, which is determined based on a certain percentage of the participant's average final compensation at the date of retirement and the number of years of the participant's credited service. In the event of death prior to retirement eligibility, the participant's accumulated contributions are paid to the participant's designated beneficiaries in a lump sum. If a participant were vested and eligible for early or regular retirement at time of death, the designated beneficiary would receive a monthly retirement allowance.

The plans do not issue separate financial statements.

The City's membership in the Basic and Police Pension Plans as of June 30, 2003 were as follows:

City's Membership in the Basic and Police Pension Plans as of June 30, 2003		
	Basic	Police
Retirees and beneficiaries	121	26
Terminated vested members	83	-
Active members	265	29
Total	469	55

2. Funding Policy

The City Council establishes and may amend the contribution requirements of both plans. The City is required to contribute at an actuarially-determined rate. For fiscal year 2003, the contributions rate was 0% of annual covered payroll. During fiscal year 2003, the City Council amended both plans so that employees are no longer required to contribute. In 2001, the plan was amended to allow permanent employees who were formerly temporary employees who worked more than 20 hours per week to buy back that period for which they were not eligible due to their temporary status. The rate of contribution by these employees is 5% of current salary for each month they are buying back.

3. Annual Pension Cost

The City's annual pension cost for the current year and the amount of contribution made for the current year for each of the plans was \$0. For fiscal years ended June 30, 2003, 2002, and 2001, the City's contributions were \$0, which were equal to its annual pension cost for each of the three years. For those three fiscal years, the City had no net pension obligation.

The following are the relevant actuarial information for the Basic and Police pension plans:

Actuarial Information for the Basic and Police Pension Plans		
	Basic	Police
Contribution rate:		
City	0%	0%
Plan members	0%	0%
Annual pension cost	—	—
Contributions made	—	—
Actuarial valuation date	July 1, 2002	July 1, 2002
Actuarial cost method	Aggregate entry age actuarial cost method	Aggregate entry age actuarial cost method
Amortization method	Level dollar (closed)	Level dollar (closed)
Asset valuation method	Smoothed market value	Smoothed market value
Actuarial assumptions:		
Investment rate of return	8%	8%
Projected salary increases	5%	5%
Cost of living adjustments	3%	3%

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2003

4. Financial Statements for Basic and Police Pension Plans

The following is the combining schedule of net assets for the City's basic and police pension plans, the City's pension trust funds, as of June 30, 2003:

Combining Schedule of Net Assets for City Pension Plans as of June 30, 2003			
	Basic Plan	Police Plan	Total
Assets			
Cash and cash equivalents	\$ 326,128	\$ 238,819	\$ 564,947
Investments, at fair value:			
Corporate equity securities	21,280,722	5,823,247	27,103,969
Corporate bonds	12,000,387	3,199,734	15,200,121
Mutual funds	11,880,795	3,587,268	15,468,063
Total investments	45,161,904	12,610,249	57,772,153
Interest and dividend receivable	16,110	4,090	20,200
Total Assets	45,504,142	12,853,158	58,357,300
Liabilities			
Accounts payable	4,586	391	4,977
Due to general fund	70,271	22,721	92,992
Total Liabilities	74,857	23,112	97,969
Net Assets			
Held in trust for pension benefits	\$ 45,429,285	\$ 12,830,046	\$ 58,259,331

The following is the combining schedule of changes in net assets for the City's basic and police pension plans, for the year ended June 30, 2003:

Combining Schedule of Changes in Net Assets for City Pension Plans for the Year Ended June 30, 2003			
	Basic Plan	Police Plan	Total
Additions			
Employee contributions	\$ 23,828	\$ -	\$ 23,828
Interest	358,236	135,810	494,046
Dividends	854,977	215,978	1,070,955
Net increase in the fair value of investments	983,509	385,249	1,368,758
Total investment earnings	2,196,722	737,037	2,933,759
Less investment expense	(207,980)	(45,814)	(253,794)
Net investment earnings	1,988,742	691,223	2,679,965
Total Additions	2,012,570	691,223	2,703,793
Deductions			
Benefits	1,537,641	406,443	1,944,084
Administration	35,135	11,623	46,758
Total Deductions	1,572,776	418,066	1,990,842
Change in Net Assets	439,794	273,157	712,951
Net Assets - Beginning of Year	44,989,491	12,556,889	57,546,380
Net Assets - End of Year	\$ 45,429,285	\$12,830,046	\$58,259,331

C. Required Supplementary Information

Pension trend data, including the schedule of funding progress and employer contributions, can be found in the required supplementary information section immediately following the notes to the financial statements.

V. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

The City is a member of the Virginia Municipal Group Insurance Association (Association) for workers' compensation. This program is administered by a servicing contractor, which furnishes claims review and processing.

Each Association member jointly and severally agrees to assume, pay and discharge any liability. The City pays Virginia Municipal Group contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Association and claims awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Association may assess all members in the proportion, which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The City continues to carry commercial insurance for all other risks of losses. Settled claims from these risks have not exceeded commercial coverage in any of the last three fiscal years.

VI. CONTINGENCIES

The City and School Board receive grant funds, principally from the U.S. government. Expenditures of these funds are subject to audit by the grantor, and the City is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of management of the City, no material refunds will be required as a result of expenditures, which may be disallowed by the grantors.

VII. ACCOUNTING CHANGES

During the fiscal year, the City adopted the provisions of GASB Statements No. 34, No. 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments: Omnibus and No. 38, Certain Financial Statement Note Disclosures, Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and Technical Bulletin No. 2003-1, Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets.

GASB Statement No. 34 requires reporting in accordance with the new governmental financial reporting model, which includes the basic financial statements that supercede the previous general-purpose financial statements. The basic financial statements consist of (1) the fund financial statements, which are similar to the previous versions in that they are prepared using the same measurement focuses and basis of accounting, however, they differ in that the emphasis is now on the major funds rather than fund types, and (2) the new government-wide financial statements, which are comprised of a statement of net assets and a statement of activities, which present both governmental and business-type activities in the aggregate. GASB Statement No. 34 also requires the presentation of Management's Discussion and Analysis as required supplementary information.

CITY OF FALLS CHURCH, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2003

GASB Statement No. 37 amends GASB Statement No. 34 to (1) clarify certain provisions and (2) modify other provisions that GASB believes may have unintended consequences in some circumstances. Accordingly, the reporting entity considered the effects of this Statement when adopting the provisions of GASB Statement No. 34.

GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements. Accordingly, note disclosures have been revised to conform to the provisions of this statement.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The impact of the implementation of this Interpretation on the City and School Board in 2003 was immaterial.

GASB Technical Bulletin No. 2003-1 provides an updated definition of a derivative and requires disclosures of the government's objectives for entering into the derivative and the derivative's terms, fair value, and risk exposures. Credit risk, interest rate risk, basis risk, termination risk, rollover risk, and market-access risk are the risk exposures that must be disclosed to the extent applicable. This Technical Bulletin did not have an impact on the City during 2003 because the City held no investments during 2003 or as of June 30, 2003 that are subject to its requirements.

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CITY OF FALLS CHURCH, VIRGINIA
**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**REQUIRED SUPPLEMENTARY
INFORMATION**

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City of Falls Church, Virginia
Required Supplementary Information
Schedule of Funding Progress
(\$ In Thousands)

1. Basic Pension Plan

Actuarial Validation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) AAL (c) = (b) - (a)	Funded Ratio (a)/(b)	Annual Covered Payroll (d)	UAAL as a Percent of Covered Payroll (c) / (d)
6/30/2002	\$ 50,564	\$ 31,005	\$ (19,559)	163.1%	\$ 10,718	(182.5%)
6/30/2001	49,107	29,478	(19,629)	166.6%	9,723	(201.9%)
6/30/1999	41,372	36,329	(5,043)	113.9%	8,801	(57.3%)
6/30/1997	34,348	33,316	(1,032)	103.1%	6,896	(15.0%)

2. Police Pension Plan

Actuarial Validation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) AAL (c) = (b) - (a)	Funded Ratio (a)/(b)	Annual Covered Payroll (d)	UAAL as a Percent of Covered Payroll (c) / (d)
6/30/2002	\$ 14,237	\$ 9,154	\$ (5,083)	155.5%	\$ 1,568	(324.2%)
6/30/2001	13,791	8,818	(4,973)	156.4%	1,526	(325.9%)
6/30/1999	11,656	9,182	(2,474)	126.9%	1,224	(202.1%)
6/30/1997	9,801	9,361	(440)	104.7%	1,238	(35.5%)

*Note: The actuarial assumptions and methods used for the valuation date of June 30, 2002 are disclosed in the Notes to the Financial Statements.

City of Falls Church, Virginia
Required Supplementary Information
Schedule of Employer Contributions

1. Basic Pension Plan

	Annual Required Contribution	% Contributed by Employer
Plan Year Ended June 30		
2003	\$ -	100%
2002	-	100%
2001	-	100%
2000	-	100%
1999	-	100%
1998	53,945	100%

2. Police Pension Plan

	Annual Required Contribution	% Contributed by Employer
Plan Year Ended June 30		
2003	\$ -	100%
2002	-	100%
2001	-	100%
2000	-	100%
1999	-	100%
1998	11,102	100%

*Note: The actuarial assumptions and methods used for the valuation date of June 30, 2002 are disclosed in the Notes to the Financial Statements.

CITY OF FALLS CHURCH, VIRGINIA
**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**OTHER SUPPLEMENTARY
INFORMATION**

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City of Falls Church, Virginia
Combining Statement of Assets and Liabilities—Agency Funds
As of June 30, 2003

	Fairfax County Water Authority Fund	Northern Virginia Criminal Justice Academy Fund	Total
Assets			
Cash and cash equivalents	\$ -	\$ 2,084,402	\$ 2,084,402
Other receivables	467,828	-	467,828
Due from general fund	818,073	-	818,073
Total Assets	1,285,901	2,084,402	3,370,303
Liabilities			
Due to other government	1,285,901	2,084,402	3,370,303
Total Liabilities	\$ 1,285,901	\$ 2,084,402	\$ 3,370,303

City of Falls Church, Virginia
Combining Statement of Changes in Assets and Liabilities—Agency Funds
For the Year Ended June 30, 2003

	Balances June 30, 2002	Additions	Deductions	Balances June 30, 2003
Fairfax County Water Authority Fund				
Assets				
Other receivables	\$ 583,863	\$ 9,733,080	\$ 9,849,115	\$ 467,828
Due from general fund	1,587,946	9,092,483	9,862,356	818,073
Total Assets	\$ 2,171,809	\$ 18,825,563	\$ 19,711,471	\$ 1,285,901
Liabilities				
Due to other government	\$ 2,171,809	\$ 18,825,563	\$ 19,711,471	\$ 1,285,901
Total Liabilities	\$ 2,171,809	\$ 18,825,563	\$ 19,711,471	\$ 1,285,901
Northern Virginia Criminal Justice Academy Fund				
Assets				
Cash and cash equivalents	\$ 2,182,291	\$ 1,295,105	\$ 1,392,994	\$ 2,084,402
Other receivables	42,874	-	42,874	-
Total Assets	\$ 2,225,165	\$ 1,295,105	\$ 1,435,868	\$ 2,084,402
Liabilities				
Due to other government	\$ 2,225,165	\$ 1,295,105	\$ 1,435,868	\$ 2,084,402
Total Liabilities	\$ 2,225,165	\$ 1,295,105	\$ 1,435,868	\$ 2,084,402
Total				
Assets				
Cash and cash equivalents	\$ 2,182,291	\$ 1,295,105	\$ 1,392,994	\$ 2,084,402
Other receivables	626,737	9,733,080	9,891,989	467,828
Due from General Fund	1,587,946	9,092,483	9,862,356	818,073
Total Assets	\$ 4,396,974	\$ 20,120,668	\$ 21,147,339	\$ 3,370,303
Liabilities				
Due to other government	\$ 4,396,974	\$ 20,120,668	\$ 21,147,339	\$ 3,370,303
Total Liabilities	\$ 4,396,974	\$ 20,120,668	\$ 21,147,339	\$ 3,370,303

City of Falls Church, Virginia
 Capital Assets Used in the Operation of Governmental Funds
 Schedule by Source (1)
 As of June 30, 2003

Governmental Funds Capital Assets:		
Land	\$	4,048,900
Construction in progress		312,425
Buildings and systems		32,167,893
Improvements other than buildings		2,262,103
Machinery and equipment		6,711,073
Software		1,210,144
Infrastructure		8,275,585
Library collections		1,823,454
Total Governmental Funds Capital Assets		56,811,577
Less accumulated depreciation		(20,537,069)
Net Governmental Funds Capital Assets	\$	36,274,508
Investments in Governmental Funds Capital Assets by Source:		
General fund	\$	34,429,996
Capital projects fund		22,381,581
Total Governmental Funds Capital Assets		56,811,577
Less accumulated depreciation		(20,537,069)
Net Governmental Funds Capital Assets	\$	36,274,508

(1) Capital assets include fixed assets for the governmental activities.

Function and Activity	Land	Buildings and Systems	Improvements Other Than Buildings	Machinery and Equipment	Software	Infrastructure	Library Collections	Total
General Government Administration:								
General and financial administration	1,170,172	1,868,457	74,294	172,999	864,558	-	-	4,150,480
Elections administration	-	-	-	33,000	-	-	-	33,000
Total General Government	1,170,172	1,868,457	74,294	205,999	864,558	-	-	4,183,480
Judicial Administration:								
Courts	34,222	497,937	10,701	104,594	-	-	-	647,454
Sheriff	-	-	-	68,115	-	-	-	68,115
Total Judicial Administration	34,222	497,937	10,701	172,709	-	-	-	715,569
Public Safety:								
Law enforcement	-	-	-	558,616	345,586	-	-	904,202
Fire and rescue services	1,378,000	4,459,394	88,960	817,597	-	-	-	6,743,951
Total Public Safety	1,378,000	4,459,394	88,960	1,376,213	345,586	-	-	7,648,153
Public Works:								
Highways, streets and sidewalks	-	-	-	-	-	8,259,756	-	8,259,756
Maintenance of general building and ground	218,525	1,141,243	236,981	2,328,669	-	-	-	3,925,418
Traffic signs and signals	-	-	-	2,034,859	-	-	-	2,034,859
Total Public Works	218,525	1,141,243	236,981	4,363,528	-	8,259,756	-	14,220,033
Health and Welfare:								
Welfare and social services	222,705	130,917	8,936	-	-	-	-	362,558
Total Health and Welfare	222,705	130,917	8,936	-	-	-	-	362,558
Education	-	20,117,061	1,252,346	213,700	-	-	-	21,583,107
Parks, Recreation, and Culture:								
Parks and recreation	1,017,243	3,459,090	576,892	263,961	-	15,829	-	5,333,015
Library	8,033	493,794	12,993	98,948	-	-	1,823,454	2,437,222
Total Parks, Recreation, and Culture	1,025,276	3,952,884	589,885	362,909	-	15,829	1,823,454	7,770,237
Community Development:								
Planning	-	-	-	16,015	-	-	-	16,015
Total Community Development	-	-	-	16,015	-	-	-	16,015
Total Governmental Funds Capital Assets Allocated to Function	4,048,900	32,167,893	2,262,103	6,711,073	1,210,144	8,275,585	1,823,454	56,499,152
Less accumulated depreciation	-	(8,968,401)	(915,053)	(3,959,438)	(810,499)	(4,618,653)	(1,265,025)	(20,537,069)
Net Governmental Funds Capital Assets	\$ 4,048,900	\$ 23,199,492	\$ 1,347,050	\$ 2,751,635	\$ 399,645	\$ 3,656,932	\$ 558,429	\$ 35,962,083
Construction in Progress								
Total Governmental Funds Capital Assets								312,425
								\$ 36,274,508

(1) Capital assets include fixed assets for the governmental activities.

See accompanying Independent Auditors' Report.

City of Falls Church, Virginia
 Capital Assets Used in the Operation of Governmental Funds
 Schedule of Changes by Function and Activity (1)
 As of June 30, 2003

	July 1, 2002 as restated	Additions	Deductions	June 30, 2003
General Government Administration:				
General and financial administration	4,079,031	71,449	-	4,150,480
Elections administration	33,000	-	-	33,000
Total General Government	4,112,031	71,449	-	4,183,480
Judicial Administration:				
Courts	647,454	-	-	647,454
Sheriff	68,115	-	-	68,115
Total Judicial Administration	715,569	-	-	715,569
Public Safety:				
Law enforcement	604,270	299,932	-	904,202
Fire and rescue services	6,743,951	-	-	6,743,951
Total Public Safety	7,348,221	299,932	-	7,648,153
Public Works:				
Highways, streets, and sidewalks	8,196,537	63,219	-	8,259,756
Maintenance of general building and ground	3,925,418	-	-	3,925,418
Traffic signs and signals	2,034,859	-	-	2,034,859
Total Public Works	14,156,814	63,219	-	14,220,033
Health and Welfare:				
Welfare and social services	362,558	-	-	362,558
Total Health and Welfare	362,558	-	-	362,558
Education	21,583,107	-	-	21,583,107
Parks, Recreation, and Culture:				
Parks and Recreation	5,333,015	-	-	5,333,015
Library	2,218,824	218,398	-	2,437,222
Total Parks, Recreation, and Culture	7,551,839	218,398	-	7,770,237
Community Development:				
Planning	16,015	-	-	16,015
Total Community Development	16,015	-	-	16,015
Total Governmental Funds Capital Assets Allocated to Function	55,846,154	652,998	-	56,499,152
Less accumulated depreciation	(18,526,068)	(2,011,001)	-	(20,537,069)
Net Governmental Funds Capital Assets	37,320,086	\$ (1,358,003)	-	\$ 35,962,083
Construction in Progress	99,404	213,021	-	312,425
Total Governmental Funds Capital Assets	\$ 37,419,490	\$ (1,144,982)	\$ -	\$ 36,274,508

(1) Capital assets include fixed assets for the governmental activities.

City of Falls Church, Virginia
City of Falls Church Public School Board Balance Sheet
Governmental Funds
As of June 30, 2003

			Nonmajor Governmental Funds		
	Operating Fund	School Community Service Fund	School Improvement Fund	School Food Service Fund	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 4,092,307	\$ 234,248	\$ -	\$ 74,137	\$ 4,400,692
Accounts receivable	30,189	23,860	-	17,240	71,289
Due (to)/from other funds	(196,124)	(20,778)	-	216,902	-
Due from primary government	89,211	-	-	-	89,211
Due from other governmental units	500,527	-	-	11,013	511,540
Total Assets	\$ 4,516,110	\$ 237,330	\$ -	\$ 319,292	\$ 5,072,732
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 3,107,892	\$ 44,834	\$ -	\$ 34,435	3,187,161
Total Liabilities	3,107,892	44,834	-	34,435	3,187,161
Fund Balances:					
Reserved for:					
Encumbrances	5,319	-	-	-	5,319
Unreserved:					
Undesignated	1,402,899	192,496	-	284,857	1,880,252
Total Fund Balances	1,408,218	192,496	-	284,857	1,885,571
Total Liabilities and Fund Balances	\$ 4,516,110	\$ 237,330	\$ -	\$ 319,292	\$ 5,072,732

City of Falls Church, Virginia
City of Falls Church Public School Board
Reconciliation of the Balance Sheet to the Statement of Net Assets–
Governmental Funds
As of June 30, 2003

Fund balances - total governmental funds		\$	1,885,571
Amounts reported for governmental activities in the Statement of Net Assets (Exhibit I) are different because :			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Governmental capital assets	3,258,001		
Less accumulated depreciation	<u>(943,973)</u>		2,314,028
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.			
Compensated absences	(707,608)		
Governmental leases payable	<u>(136,223)</u>		(843,831)
Net Assets of Governmental Activities		\$	<u>3,355,768</u>

City of Falls Church, Virginia
City of Falls Church Public School Board
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

			Nonmajor Governmental Funds		
	Operating Fund	School Community Service Fund	School Improvement Fund	School Food Service Fund	Total Governmental Funds
Revenues					
Revenue from use of money and property	\$ 13,914	\$ 57,042	\$ -	\$ 100	\$ 71,056
Charges for services	383,355	840,655	-	441,744	1,665,754
Miscellaneous	99,948	34,162	-	-	134,110
Intergovernmental:				-	
Federal	567,507	-	-	60,366	627,873
Commonwealth	3,198,307	-	-	6,603	3,204,910
Primary government	19,083,762	346,425	432,909	-	19,863,096
Total Revenues	23,346,793	1,278,284	432,909	508,813	25,566,799
Expenditures					
Current:					
Education	22,572,836	1,137,576	-	428,139	24,138,551
Capital outlay	606,054	17,105	7,023	-	630,182
Debt service:					
Principal	60,865	-	6,936	-	67,801
Interest	4,417	-	1,498	-	5,915
Total Expenditures	23,244,172	1,154,681	15,457	428,139	24,842,449
Excess/(deficiency) of revenues over expenditures	102,621	123,603	417,452	80,674	724,350
Other financing sources/(uses):					
Operating transfers in/(out)	25,570	(30,570)	-	5,000	-
Proceeds from capital leases	63,250	-	-	-	63,250
Total Other Financing Sources/(Uses)	88,820	(30,570)	-	5,000	63,250
Net Change in Fund Balances	191,441	93,033	417,452	85,674	787,600
Fund Balances at Beginning of Year	1,216,777	99,463	(417,452)	199,183	1,097,971
Fund Balances at End of Year	\$ 1,408,218	\$ 192,496	\$ -	\$ 284,857	\$ 1,885,571

City of Falls Church, Virginia

City of Falls Church Public School Board

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Governmental Activities

For the Year Ended June 30, 2003

Net change in fund balances - total governmental funds		\$	787,600
Amounts reported for governmental activities in the Statement of Activities (Exhibit II) are different because :			
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.			
Expenditures for capital assets	69,005		
Less current year depreciation	<u>(155,387)</u>		(86,382)
The issuance of long-term debt (e.g., bonds, capital leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Rather, issuing debt increases long-term liabilities in the Statement of Net Assets and the repayment of debt reduces long-term liabilities in the Statement of Net Assets.			
Principal Payments on capital leases			67,801
Expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.			
Change in compensated absence liability			<u>(28,764)</u>
Change in Net Assets of Governmental Activities		\$	<u><u>740,255</u></u>

City of Falls Church, Virginia
City of Falls Church Public School Board
Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual
Operating Fund
For the Year Ended June 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Revenue from use of money and property	\$ 12,500	\$ 12,500	\$ 13,914	\$ 1,414
Charges for services	327,270	327,270	383,355	56,085
Miscellaneous	89,850	189,850	99,948	(89,902)
Intergovernmental:				
Commonwealth	3,085,304	3,085,304	3,198,307	113,003
Federal	342,993	567,993	567,507	(486)
Primary government	19,068,762	19,068,762	19,083,762	15,000
Total Revenues	22,926,679	23,251,679	23,346,793	95,114
Expenditures				
Current:				
Education	22,585,379	23,095,606	22,572,836	(522,770)
Capital outlay	586,390	556,696	606,054	49,358
Debt service:				
Principal	81,950	82,817	60,865	(21,952)
Interest	-	-	4,417	4,417
Total Expenditures	23,253,719	23,735,119	23,244,172	(490,947)
Excess/(deficiency) of revenues over expenditures	(327,040)	(483,440)	102,621	586,061
Other financing sources/(uses):				
Operating transfers in	25,570	(122,084)	25,570	147,654
Proceeds from capital leases	-	-	63,250	63,250
Total Other Financing Sources/(Uses)	25,570	(122,084)	88,820	210,904
Net Change in Fund Balances	(301,470)	(605,524)	191,441	796,965
Fund Balances at Beginning of Year	1,216,777	1,216,777	1,216,777	-
Fund Balances at End of Year	\$ 915,307	\$ 611,253	\$ 1,408,218	\$ 796,965

City of Falls Church, Virginia
City of Falls Church Public School Board
School Community Service Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual
For the Year Ended June 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Revenue from use of money and property	\$ 52,200	\$ 52,200	\$ 57,042	\$ 4,842
Charges for services	1,087,872	1,087,872	840,655	(247,217)
Miscellaneous	64,661	64,661	34,162	(30,499)
Intergovernmental:				
Primary Government	346,425	346,425	346,425	-
Total Revenues	1,551,158	1,551,158	1,278,284	(272,874)
Expenditures				
Current:				
Education	1,456,888	1,471,888	1,137,576	(334,312)
Capital Outlay	63,700	48,700	17,105	(31,595)
Total Expenditures	1,520,588	1,520,588	1,154,681	(365,907)
Excess/(deficiency) of revenues over expenditures	30,570	30,570	123,603	93,033
Other financing sources/(uses):				
Operating transfers out	(30,570)	(30,570)	(30,570)	-
Total Other Financing Sources/(Uses)	(30,570)	(30,570)	(30,570)	-
Net Change in Fund Balances	-	-	93,033	93,033
Fund Balances at Beginning of Year	99,463	99,463	99,463	-
Fund Balances at End of Year	\$ 99,463	\$ 99,463	\$ 192,496	\$ 93,033

City of Falls Church, Virginia
City of Falls Church Public School Board
Statement of Assets and Liabilities—Agency Funds
As of June 30, 2003

	Thomas Jefferson Elementary	Mt. Daniel Elementary	George Mason Middle and High School	Total
Assets				
Cash and cash equivalents	\$ 31,740	\$ 13,195	\$ 314,671	\$ 359,606
Total Assets	\$ 31,740	\$ 13,195	\$ 314,671	\$ 359,606
Liabilities				
Amounts held for others	\$ 31,740	\$ 13,195	\$ 314,671	\$ 359,606
Total Liabilities	\$ 31,740	\$ 13,195	\$ 314,671	\$ 359,606

City of Falls Church, Virginia
City of Falls Church Public School Board
Statement of Changes in Assets and Liabilities—Agency Funds
For the Year Ended June 30, 2003

	Balances June 30, 2002	Additions	Deductions	Balances June 30, 2003
Thomas Jefferson Elementary				
Assets				
Cash and cash equivalents	\$ 30,489	\$ 51,126	\$ 49,875	\$ 31,740
Total Assets	\$ 30,489	\$ 51,126	\$ 49,875	\$ 31,740
Liabilities				
Amounts held for others	\$ 30,489	\$ 51,126	\$ 49,875	\$ 31,740
Total Liabilities	\$ 30,489	\$ 51,126	\$ 49,875	\$ 31,740
Mt. Daniel Elementary				
Assets				
Cash and cash equivalents	\$ 47,185	\$ 18,814	\$ 52,804	\$ 13,195
Total Assets	\$ 47,185	\$ 18,814	\$ 52,804	\$ 13,195
Liabilities				
Amounts held for others	\$ 47,185	\$ 18,814	\$ 52,804	\$ 13,195
Total Liabilities	\$ 47,185	\$ 18,814	\$ 52,804	\$ 13,195
George Mason Middle and High School				
Assets				
Cash and cash equivalents	\$ 247,883	\$ 357,959	\$ 291,171	\$ 314,671
Total Assets	\$ 247,883	\$ 357,959	\$ 291,171	\$ 314,671
Liabilities				
Amounts held for others	\$ 247,883	\$ 357,959	\$ 291,171	\$ 314,671
Total Liabilities	\$ 247,883	\$ 357,959	\$ 291,171	\$ 314,671
Total				
Assets				
Cash and Cash Equivalents	\$ 325,557	\$ 427,899	\$ 393,850	\$ 359,606
Total Assets	\$ 325,557	\$ 427,899	\$ 393,850	\$ 359,606
Liabilities				
Amounts held for others	\$ 325,557	\$ 427,899	\$ 393,850	\$ 359,606
Total Assets	\$ 325,557	\$ 427,899	\$ 393,850	\$ 359,606

City of Falls Church, Virginia
Combining Statement of Net Assets– Non-Major Component Units
As of June 30, 2003

	Industrial Development Authority- Governmental Activities	Economic Development Authority- Governmental Activities	Total
Assets			
Cash and cash equivalents	\$ 124,747	\$ -	\$ 124,747
Capital assets:			
Non-depreciable:			
Land	-	517,255	517,255
Total non-depreciable	-	517,255	517,255
Total capital assets	-	517,255	517,255
Total Assets	124,747	517,255	642,002
Net Assets			
Invested in capital assets, net of related debt	-	517,255	517,255
Unrestricted	124,747	-	124,747
Total Net Assets	\$ 124,747	\$ 517,255	\$ 642,002

City of Falls Church, Virginia
Combining Statement of Activities–Non-Major Component Units
For the Year Ended June 30, 2003

Function/Programs	Expenses			Net (Expenses) Revenue and Changes in Net Assets		
	Industrial Development Authority	Economic Development Authority	Total	Industrial Development Authority	Economic Development Authority	Total
Governmental activities:						
Economic development	\$ -	\$ 57,560	\$ 57,560	\$ -	\$ (57,560)	\$ (57,560)
Total Governmental Activities	-	57,560	57,560	-	(57,560)	(57,560)
General Revenues:						
Revenue from use of money and property				1,761	4,500	6,261
Payment from primary government				-	65,240	65,240
Other				10,700	2,600	13,300
Total General Revenues				12,461	72,340	84,801
Change in net assets				12,461	14,780	27,241
Net Assets - Beginning of Year				112,286	502,475	614,761
Net Assets - End of Year				\$ 124,747	\$ 517,255	\$ 642,002

City of Falls Church, Virginia
Combining Balance Sheet-Non-Major Component Units
As of June 30, 2003

	Industrial Development Authority	Economic Development Authority	Total Non-Major Component Units
Assets			
Cash and cash equivalents	\$ 124,747	\$ -	\$ 124,747
Total Assets	\$ 124,747	\$ -	\$ 124,747
Fund Balances			
Unreserved and undesignated	\$ 124,747	\$ -	\$ 124,747
Total Fund Balances	124,747	-	124,747
Total Liabilities and Fund Balances	\$ 124,747	\$ -	\$ 124,747
<p>Amounts reported for non-major component units in the statement of net assets (Exhibit I and Schedule 14) are different because:</p> <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.</p>			
Capital assets	-	517,255	517,255
Net Assets of Non-Major Component Units	\$ 124,747	517,255	\$ 642,002

City of Falls Church, Virginia
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Component Units
For the Year Ended June 30, 2003

	Industrial Development Authority	Economic Development Authority	Total Non-Major Component Units
Revenues			
Revenue from use of money and property	\$ 1,761	\$ 4,500	\$ 6,261
Miscellaneous	10,700	2,600	13,300
Intergovernmental revenue:			
Transfers in from primary government	-	65,240	65,240
Total Revenues	12,461	72,340	84,801
Expenditures			
Current:			
Economic development	-	72,340	72,340
Total Expenditures	-	72,340	72,340
Excess/(deficiency) of revenues over expenditures	12,461	-	12,461
Net Change in Fund Balances	12,461	-	12,461
Fund Balances at Beginning of Year	112,286	-	112,286
Fund Balances at End of Year	\$ 124,747	\$ -	\$ 124,747
Net change in fund balances - total governmental funds	\$ 12,461	\$ -	\$ 12,461
Amounts reported for governmental activities in the statement of net assets (Exhibit II and Schedule 15) are different because:			
Expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.			
Change in compensated absence liability	-	14,780	14,780
Change in Net Assets of Governmental Activities	\$ 12,461	\$ 14,780	\$ 27,241

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CITY OF FALLS CHURCH, VIRGINIA
**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

STATISTICAL SECTION

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Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Fees and Licenses	Fines and Forfeitures	Use of Money and Property	Charge for Services	Miscellaneous	Recovered Costs	Inter-governmental	Total
1994	\$ 14,513,861	\$ 6,458,191	\$ 126,717	\$ 186,338	\$ 789,201	\$ 1,279,823	\$ 356,700	\$ 51,917	\$ 4,737,466	\$ 28,500,214
1995	14,961,085	6,751,179	120,632	196,842	966,304	1,430,714	398,876	79,788	4,621,031	29,526,451
1996	15,603,897	7,261,985	134,493	265,201	719,742	1,641,859	335,418	54,253	4,834,675	30,851,523
1997	16,235,395	7,660,838	155,785	298,226	589,833	1,864,666	486,115	53,406	5,383,567	32,727,831
1998	16,361,623	7,967,733	195,762	319,712	629,517	1,846,513	4,272,542	62,397	5,327,453	36,983,252
1999	16,779,979	8,955,482	195,237	279,158	867,637	1,911,070	2,496,315	214,301	5,944,556	37,643,735
2000	17,299,289	9,127,990	207,222	267,043	1,054,550	2,084,670	2,639,248	44,456	7,374,611	40,099,079
2001	17,894,364	9,838,262	268,479	303,416	1,367,823	2,014,924	540,559	99,573	7,863,015	40,190,415
2002	21,530,436	9,638,805	311,447	487,510	585,542	2,356,516	1,171,759	46,014	9,172,198	45,300,227
2003	22,502,555	9,568,442	415,000	763,707	323,425	2,857,383	574,804	1,976,842	9,179,090	48,161,248

Includes all General and Capital Project funds, and Component Unit School Board.

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation and Cultural	Community Development	Economic Development	Debt Service	Total
1994	\$ 1,816,133	\$ 711,183	\$ 4,109,990	\$ 3,354,318	\$ 1,576,306	\$ 12,043,916	\$ 1,750,034	\$ 1,392,564	\$ -	\$ 1,885,896	\$ 28,640,340
1995	2,291,352	777,602	4,058,957	3,306,479	1,822,740	12,980,010	1,914,687	1,583,784	-	2,556,734	31,292,345
1996	2,396,501	798,377	4,334,818	3,221,785	1,894,837	13,803,107	2,056,996	1,456,949	-	2,540,049	32,503,419
1997	2,303,640	1,185,183	4,557,623	3,239,422	1,828,804	14,912,925	2,053,664	1,495,578	-	2,533,462	34,110,301
1998	2,546,780	1,002,479	4,543,158	3,869,002	1,823,457	15,491,386	2,140,724	1,865,022	-	2,689,072	35,971,080
1999	2,703,924	1,001,759	5,767,264	3,728,623	1,775,667	16,237,617	2,251,352	1,480,836	-	2,659,797	37,606,839
2000	2,930,417	900,424	4,735,878	3,615,302	1,778,124	18,437,732	2,290,312	2,064,271	-	2,685,736	39,438,196
2001	4,197,703	873,315	5,179,796	3,088,647	2,754,537	20,723,846	2,559,833	970,075	-	3,023,654	43,371,406
2002	3,709,201	967,955	5,862,306	2,783,988	3,130,689	23,201,898	2,622,749	1,008,178	-	3,228,317	46,515,291
2003	4,786,596	962,887	6,371,972	4,456,901	2,664,254	24,150,001	2,633,689	1,138,518	428,264	3,306,069	50,899,151

Includes all General, Special Revenue and Capital Project funds, and Component Unit School Board.

Calendar Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
1994	\$ 14,242,388	\$ 13,698,410	96.18%	\$ 435,593	\$ 14,134,003	99.24%	\$ 816,070	5.73%
1995	14,621,356	14,486,425	98.94%	370,264	14,836,689	101.47%	682,953	4.67%
1996	15,295,102	15,080,864	98.60%	398,189	15,479,053	101.20%	604,450	3.95%
1997	16,212,191	16,007,357	98.74%	136,810	16,144,167	99.58%	557,308	3.44%
1998	16,240,120	16,119,759	99.26%	129,338	16,249,097	100.06%	506,188	3.12%
1999	16,826,726	16,550,925	98.36%	88,445	16,639,370	98.89%	675,853	4.02%
2000	17,910,201	17,682,220	98.73%	140,804	17,823,024	99.51%	813,404	4.54%
2001	20,636,808	19,214,572	93.11%	84,068	19,298,639	93.52%	699,391	3.39%
2002	23,661,325	22,851,877	96.58%	120,666	22,972,543	97.09%	666,646	2.82%
2003	25,507,581	24,722,528	96.92%	70,960	24,793,488	97.20%	552,827	3.27%

Collections do not include penalties and interest but do include Commonwealth of Virginia PPTRA reimbursement.

Accelerated collection of real estate taxes began in fiscal 1993.

TABLE 4

City of Falls Church, Virginia
Assessed Value of Taxable Property
Last Ten Calendar Years

Calendar Year	Real Estate	Personal Property	Machinery and Tools	Public Service Corporations		Total
				Real Estate	Personal Property	
1994	\$ 1,071,790,213	\$ 58,417,671	\$ 8,396,954	\$ 17,632,830	\$ 3,500	\$ 1,156,241,168
1995	1,061,864,362	72,288,711	2,410,300	16,647,184	13,748	1,153,224,305
1996	1,086,323,987	75,812,791	424,272	17,849,132	5,120	1,180,415,302
1997	1,110,325,350	82,294,224	443,463	17,695,018	11,230	1,210,769,285
1998	1,114,984,300	83,708,424	30,348	19,754,568	21,594	1,218,499,234
1999	1,134,148,650	87,758,184	14,313	21,524,498	15,803	1,243,461,448
2000	1,223,996,750	103,552,075	38,546	31,377,248	17,383	1,358,982,002
2001	1,404,758,900	111,659,710	-	29,152,583	81,843	1,545,653,036
2002	1,662,659,040	110,856,311	-	26,276,579	171,835	1,799,963,765
2003	1,820,716,800	111,277,385	-	26,413,009	177,980	1,958,585,174

Valuations are at estimated 100% market value.

TABLE 5

City of Falls Church, Virginia
Property Tax Rates
Last Ten Calendar Years

Calendar Year	Real Estate	Personal Property	Machinery and Tools
1994	1.03	4.71	4.71
1995	1.07	4.71	4.71
1996	1.07/1.11	4.71	4.71
1997	1.11	4.71	4.71
1998	1.11	4.71	4.71
1999	1.11	4.71	4.71
2000	1.10	4.71	4.71
2001	1.13	4.71	4.71
2002	1.13	4.71	4.71
2003	1.13	4.71	4.71

Rates are per \$100 of valuation

TABLE 6

City of Falls Church, Virginia

Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per capita
Last Ten Fiscal Years

Fiscal Year	Population (1)	Assessed Value (2)	Gross Bonded Debt (3)	Less: Debt Service Monies Available	Net Bonded Debt	General Obligation Debt to Assessed Value	Net Bonded Debt per capita
1994	9,600	\$ 1,156,241,168	\$ 5,690,000	\$ 106,428	\$ 25,583,572	2.21%	\$ 2,665
1995	9,600	1,153,224,305	24,592,500	-	24,592,500	2.13%	2,562
1996	9,600	1,180,415,302	26,575,000	40,996	26,534,004	2.25%	2,764
1997	9,600	1,201,921,776	25,402,499	17,915	25,384,584	2.11%	2,644
1998	9,600	1,218,499,234	24,069,999	49,492	24,020,507	1.97%	2,502
1999	9,600	1,243,461,448	22,642,499	119,061	22,523,438	1.81%	2,346
2000	9,600	1,358,982,002	30,214,999	18,038	30,196,961	2.22%	3,146
2001	9,600	1,545,618,036	28,825,000	127,280	28,697,720	1.86%	2,989
2002	10,400	1,799,963,765	27,180,000	-	27,180,000	1.51%	2,613
2003	10,600	1,820,716,800	25,495,000	-	25,495,000	1.40%	2,405

(1) Bureau of the Census

(2) From Schedule 10

(3) Includes all long-term general obligation bonded debt, Bond Anticipation Notes, and Literary Loans

Excludes revenue bonds, capital leases, and compensated absences

TABLE 7

City of Falls Church, Virginia
 Ratio of Annual Debt Service Expenditures for General Bonded Debt (1) to
 Total General Governmental Expenditures
 Last Ten Fiscal Years

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures (1)	Percent Ratio of Debt Service to General Governmental Expenditures
1994	\$ 686,550	\$ 1,199,346	\$ 1,885,896	\$ 28,640,340	6.58%
1995	1,097,500	1,459,234	2,556,734	31,292,345	8.17%
1996	1,142,500	1,397,549	2,540,049	32,503,419	7.81%
1997	1,250,364	1,328,098	2,578,462	34,110,301	7.56%
1998	1,392,203	1,296,869	2,689,072	35,971,080	7.48%
1999	1,439,146	1,220,651	2,659,797	37,606,839	7.07%
2000	1,466,199	1,219,537	2,685,736	39,049,431	6.88%
2001	1,430,865	1,592,789	3,023,654	43,371,406	6.97%
2002	1,645,000	1,583,317	3,228,317	46,515,291	6.94%
2003	1,685,000	1,399,804	3,084,804	50,899,151	6.06%

(1) Includes all General, Special Revenue, Debt Service funds, and Component Unit – School Board.

City of Falls Church, Virginia
 Computation of Legal Debt Margin
 As of June 30, 2003

Total assessed value of real estate, including public service corporations for calendar year 2003	\$ 1,820,716,800
Legal debt limit percentage	10.00%
Legal debt limit	182,071,680
Amount of debt applicable to limit	25,495,000
Legal debt margin	\$ 156,576,680

City of Falls Church, Virginia
General Government Fund Balances (1)
Last Ten Fiscal Years

Fiscal Year	Reserved for:			Designated for:		Unreserved, Undesignated	Total
	Encumbrances	Inventory	Prepays	Economic Development	Construction		
1994	\$ 3,476,307	\$ 83,635	\$ -	\$ -	\$ 5,519,081	\$ 7,705,738	\$ 16,784,761
1995	495,831	92,889	-	-	4,064,533	7,336,211	11,989,464
1996	1,993,027	96,476	-	-	3,603,888	6,882,381	12,575,772
1997	1,273,377	126,021	-	-	3,417,261	6,741,213	11,557,872
1998	1,196,131	111,312	-	1,146,639	3,262,673	9,078,051	14,794,806
1999	927,714	113,027	-	2,240,012	913,643	9,364,554	13,558,950
2000	2,290,448	107,210	-	2,380,251	4,027,570	10,531,589	19,337,068
2001	675,262	87,807	-	1,323,296	1,336,082	11,994,460	15,416,907
2002	1,067,662	128,688	-	763,689	940,900	14,854,849	17,755,788
2003	756,577	129,907	65,480	335,425	150,342	17,602,385	19,040,116

(1) Includes Primary Governmental and Component Unit

Calendar Year	Commercial		Residential Construction		Property Value		
	Number of Units	Value	Number of Units	Value	Commercial	Residential	Total
1994	107	\$ 3,167,371	507	\$ 6,978,418	\$ 291,955,654	\$ 779,834,559	\$ 1,071,790,213
1995	101	13,044,356	491	6,360,110	272,262,022	789,602,340	1,061,864,362
1996	150	8,828,079	476	5,349,731	263,759,464	822,564,523	1,086,323,987
1997	106	9,066,796	379	9,799,244	278,913,728	831,411,622	1,110,325,350
1998	129	7,820,984	431	8,273,068	282,666,409	829,317,891	1,111,984,300
1999	64	1,224,919	184	4,595,236	292,156,669	841,991,891	1,134,148,560
2000	102	2,967,795	186	3,392,751	323,379,941	900,616,809	1,223,996,750
2001	76	12,530,270	187	2,586,633	355,114,202	1,049,609,698	1,404,723,900
2002	217	14,258,902	251	8,913,817	390,143,523	1,272,872,347	1,663,015,870
2003	186	2,955,032	263	11,431,439	436,972,032	1,383,744,768	1,820,716,800
							\$ 1,116,020
							2,031,043
							2,278,801
							3,725,263
							5,297,638
							4,830,142
							1,015,618
							707,420
							1,335,935
							2,068,602

TABLE 11

City of Falls Church, Virginia
Demographic Statistics
Last Ten Calendar Years

Calendar Year	Population	Per Capita Income (1)	School Enrollment	Unemployment Rate (2)
1994	9,600	\$ 36,503	1,356	2.6
1995	9,600	37,829	1,462	4.3
1996	9,600	39,261	1,480	4.1
1997	9,600	41,267	1,451	3.6
1998	9,600	44,362	1,541	2.2
1999	9,600	48,271	1,675	1.3
2000	9,600	51,596	1,721	1.1
2001	10,400	53,721	1,749	2.6
2002	10,600	55,870	1,817	2.9
2003	10,600	58,105	1,839	2.5

1 - Source: U.S. Department of Commerce, Bureau of Economic Analysis. Per Capita Rate for Fairfax, Fairfax City and Falls Church

2- Source: Virginia Employment Commission

TABLE 12

City of Falls Church, Virginia
Ten Largest Taxpayers
As of January 1, 2003

Number	Owner	Nature of Business	Assessment	Tax	% of Levy
1	Falls Church Country Club	Apartment	\$ 46,500,000	\$ 525,450	0.02554
2	Capital Properties, Inc. & Eden Center, Inc.	Shopping Center	36,700,000	414,710	0.02016
3	West Falls Parcel, Inc. & Federal Realty Investment Trust	Shopping Center	30,610,000	345,893	0.01681
4	B Franklin Kahn, et al	Apartment	16,860,000	190,518	0.00926
5	James E. Koons	Auto Sales	15,445,800	174,538	0.00848
6	Kaiser Foundation Health Plan, Inc.	Medical Office	15,426,100	174,315	0.00847
7	Aimco Merrill House, LLC	Apartment	13,700,000	154,810	0.00752
8	Verizon Virginia, Inc.	Utility	11,739,000	132,651	0.00645
9	George Mason Square, LLC	Office	10,049,000	113,554	0.00552
10	Noland Co. Inc.	Plumbing Supply	9,201,200	103,974	0.00505

